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With The Editors

The News Front

When the financial district complains of lack of news it should consider the poor war correspondent. A world waits for tidings of the latest moves at the front—and the stories when they come might as well be saved for the Sunday supplements, although they are given the first page as a matter of courtesy and habit.

There are actually more important developments reported in the financial section of current newspapers than on page one. A change in the crop outlook affects a larger number of people and affects them more vitally than a month of skirmishes in Europe. And if one wants a really sincere guess as to what is happening over there, the various stock markets are giving their appraisals backed by the cash of the guessers; even the prospective strategy of Germany toward the neutral countries shows in the bids for their bonds, which dip and firm as the lineup appears to change.

Our own stock market seems to be having difficulty making up its mind about either business or the war. Prices have been threatening to move higher, but their apparent inability to do so is a business factor of considerable weight. Mr. Miller's article on page 72 puts the market squarely up against the business situation trying to determine what's brewing for both. Ward Gates also takes a look at the steel industry a few pages further on, with especial concern for that 90% rate of operations that seems to have been the topping out point so often in the past.

By the way, the Olympians have already mapped out the course of industry through politically vital 1940. Government economists are on more or less open record with their business predictions, and since they've sometimes been right before (compositor note: no italics on "sometimes"), you will probably want to find the item among Capital Briefs on page 79. While at that page, check your own impressions of what the U. S. arms program will be next year, how good the chance of an armament boom from our own spending, how great a stepup in aircraft purchases, and whether we are likely to build a two-ocean navy.

One change you'll notice—in the Thumbnail Stock Appraisals (page 96) the very practical factor of market behavior is brought out in a way that should be mighty useful even to one familiar with their records. The whole treatment aims at telling *you* in the minimum number of words the facts *we* should like to know about an issue before buying or selling it. Does it succeed? How could it be improved? If you like them we have more to come.

★ ★ ★ IN THE NEXT ISSUE ★ ★ ★

What Third Quarter Earnings Tell About Fourth Quarter Prospects
By Henry Steinmetz

Stocks In Line for Increased Dividends or Year-End Extras
By J. S. Williams

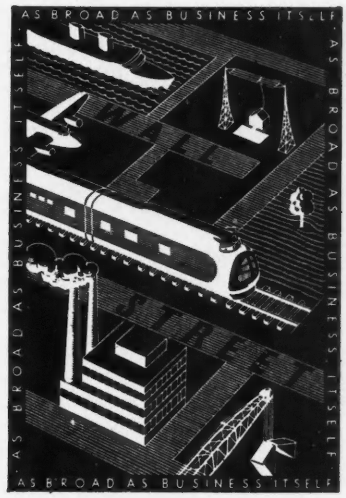
Stockholders' Panorama of the Aircraft Industry
By John Lloyd

Wide World Photo

Certain recent weeks have seen more steel produced than for any similar period on record. Mills and blast furnaces are experiencing a burst of activity which taxes all equipment and personnel. How long can it last? Leaders in the industry itself disagree. But the article on page 82 of this issue approaches the question objectively, analyzes the possibility that steel may be in one of its longer-lived sellers' markets.

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Publisher* : LAURENCE STERN, *Managing Editor*



Questions of the Day

What would happen to business if the war were to end next month?

A consensus of sound opinion would sum it up this way, the events in order of probable occurrence: 1. A drop in certain key commodity prices, now aided by threats of war-caused scarcity. 2. A consequent change in inventory policies, now aimed at protecting against shortages and advancing prices. 3. Sudden slackening in sensitive industries — steel, copper, paper, coal and others — and a slump in carloadings. 4. All of which would cause an immediate dip in the business indexes, although consumption of goods would be unaffected. Then, at some indeterminately later time—5. Confidence in the future based on solid industrial prospects would replace the momentary stimulus of war orders; a genuine forward movement would spread through all sections of business, gradually but persistently accomplishing greater gains than any of the last two months.

For practical purposes the benefits of an early peace would far outweigh the damage; but there would be many moments of doubt while waiting for the good effects to appear.

How can we hope to put nine million unemployed back to work while continuing steadily to develop machines which eliminate labor?

Mr. Raoul Desvernine of the Crucible Steel Co. has framed the answer. He points out that between 1900 and 1939 the population of the United States increased 70.8 per cent, the number of wage earners 111.2 per cent. In his own industry the gain in wage earners was 125 per cent. During the greatest era of technological improvement ever experienced the percentage of the population gainfully employed actually increased, yet the number of those who want to find work and cannot has grown tremendously. It can be logically deduced that not machines have made harder the hunt for jobs, but the ladies, bless them!

Can the remarkable flow of extra and increased dividends now setting in be accepted as any sounder basis for optimism than the liberality at the same time in 1936?

A breathing spell among some very difficult questions in this issue. For the first time in several years directors are free to express their opinion of the state of business and the outlook in the very practical language of dividend checks. What they pay to stockholders this fall is money that has not only been earned but that promises to be followed quite soon by additional profits. It speaks very highly, in nine cases out of ten, for the liquid position of the payer. If we take the orthodox stand that interest and dividend receipts by the investing public will in considerable part go back into more securities, it obviously adds to purchasing power and potential demand for investments. Three years ago we

had a tax that put a premium on prodigality, the famous levy on undistributed profits, but now a dividend is pure good news, freely decided upon.

Is the crisis in the high grade bond market completely over?

It would evade the question to answer that the trouble is over for the moment, yet there must obviously be some limitation of the time involved. Suppose we put it that the causes of the recent dumping of prime obligations have pretty well exhausted their ability to break the market. Movements based on these conditions will from now on be orderly and gradual. If new reasons to suspect the longevity of cheap money appear suddenly, then we can anticipate a fresh crisis which might or might not end as happily as the one just passing into history. But the crisis as such is definitely over and there is nothing in sight to indicate another.

The Trend of Events

AMENDED NEUTRALITY ACT . . . Now that the Pittman resolution, repealing the arms embargo and placing trade with belligerents on a cash and carry basis, is about to become law, its long conjectured effects on American business will shortly be apparent in actuality. It seems likely that, for the time being at least, they will prove largely psychological.

Some industries, of course, will be immediately and importantly affected. Shipping is one for the Maritime Commission has estimated that about 30 per cent of our present merchant marine will be put out of operation as a result of the new legislation. And unless the Administration decides, as it very well may, that unabated construction of merchant vessels is necessary from a standpoint of national defense (an adequate merchant fleet is required to service the Navy in wartime), shipbuilding may likewise suffer later on though there is enough work already under way to keep our coastal yards busy for some time to come without additional contracts.

On the other hand, there are the aircraft manufacturers whose backlog of unfilled orders will almost certainly be tremendously expanded with the embargo's repeal. Britain and, more especially, France, whose own aircraft industry until recently was almost a national scandal, will undoubtedly be large buyers of American planes and parts. The rail equipment makers, comprising this country's closest approximation of a munitions industry, may come in for some business but probably not in any important volume unless and until hostilities abroad become more intensified.

Except in these few relatively unimportant fields, it is difficult to see where revision of the Neutrality Act is going to have any immediate or far reaching effects on our economy. And it is probably best that it should be so. For a prosperity based on anything as economically destructive as war is bound to be chimerical.

STOCK EXCHANGE TAX PROPOSALS . . . At the request of the Treasury Department, the New York Stock Exchange has submitted a number of recommendations for changes in the stock transfer tax calculated to place this levy on a more logical and equitable basis. In summary, the Exchange advocates: (1) adoption of moderately graduated, specific per share rates based on market value; (2) taxation only of actual sales; (3) elimination of double taxation of odd lot traders; (4) a simpler method of tax collection, obviating the use of stamps; (5) uniformity of Federal and state taxation.

The Exchange's stand is well taken. As to inequality of the present rate structure, it notes that "because the Federal tax combines the principles of an ad valorem par value and a per share tax, it is obviously inequitable." In connection with its second point, it observes that while only about 3 per cent of total revenues derived from the present tax come from taxation of transfers that do not involve a real change in ownership or title, the cost of rulings, interpretations and so on that these cases frequently involve is probably in excess of the tax return.

Revision of present transfer taxes has long been a crying need and it is to be hoped that the Exchange's suggestions will not go unheeded in Washington.

A BLOW AT DEFEATISM . . . Speaking recently in New York, Under-Secretary of the Treasury Hanes dealt a telling blow at one of the most cherished if also the most untenable theories of the New Deal. Mr. Hanes advised his audience to:

" . . . have no sympathy with the view sometimes expressed that we are suffering from a matured economy; that our economic frontiers have disappeared; that there is not ample room in our national economy for new investments in enterprise. We should be sad indeed if we found this restricted philosophy accepted. It reflects upon the genius of American science and upon the drive and ingenuity of our people; it is inconsistent with our insatiable demand for an ever higher standard of living; it is repudiated by the achievements of the past and the prospects of the future."

There is nothing remarkable in the sentiment Mr. Hanes expresses. It is concurred in by all but the pseudo-economists, the congenital defeatists or those who wish to banish private enterprise entirely and substitute a system of government-run-everything. What is remarkable, though, is that he was able to speak out as he did and not draw upon his head the condemnation of the left-wingers of the Administration's inner circle.

The intra-party truce, insisted upon by the President in the interests of a united front until the neutrality fight is won, is probably the explanation of why Mr. Hanes has been permitted to utter heresies and go unscathed.

As I See It!

BY CHARLES BENEDICT

THE NEXT SURPRISE

THE most sensational move since the Nazi-Communist pact is the forced repatriation of Germans from the Baltic states, and the statement that the Reich contemplated also the removal of German minorities from the other European states.

On the face of it, it seems incredible that Hitler should deliberately and voluntarily take the action that will surely destroy the enormous economic, social and cultural power this German nucleus has held for generations—even for centuries; a power which has made Germany strong within the borders of these lands—and which was of incalculable advantage to Hitler and his plans.

Therefore, one must conclude that whatever surprise Hitler intends to spring upon the world has to do with this particular phase of his activity.

Superficially, it looks like an act of desperation in a scheme to secure the vital exchange with which to buy necessary raw materials and foodstuffs. It fits in with the great urgency for foreign credits if one recalls the unseemly haste with which the Nazis removed the gold and other valuables from Austria and Czechoslovakia. It reminds us too that England during "appeasement" handed over the important holdings of Czech gold on a flimsy excuse — unquestionably as a part of the bargain at Munich. Russia as well turned over the Polish gold to the Reich. The German assets in the Baltic would produce a large credit, in spite of shrinkage, against which goods could be purchased in this emergency when Germany finds other sources no longer available to her—like Hungary and Rumania —which she thought were going to fall into her lap after the Polish campaign.

Yet, the financial angle can only be secondary—for, in uprooting these people almost overnight, Hitler has wrought great damage to his regime, suggesting that it was forced upon him as a part of his agreement with Stalin, who wished to free the Baltic of the German menace. Yet, be that as it may, the situation nevertheless presents an opportunity for the Nazis which can be capitalized in their diplomacy; and I think they will use it tellingly as a surprise in the new peace move said to be pending. For Germany can suggest her repatriation plan was voluntary, and offer it as concrete evidence that she does not intend any further aggression in Europe. Hitler can say the homeward trek of the Germans eliminates the minority problem, which thus far has been his excuse for aggression, and therefore assures peace on the continent.

The fact that Lloyd George, who has been anti-Hitler all along, now seems to place some reliance in a Nazi peace plan, leads me to believe that there is a great deal behind the scenes of which we are unaware. This may also explain the inactivity

(*Please turn to page* 121)

The Market Versus Business

Sentiment is cautious, reflecting lack of conviction as to future probabilities. In the absence of positive danger signals, we continue to lean to the bull side and to favor selective purchases in periods of reaction.

BY A. T. MILLER

In two trading sessions out of the past fortnight—October 17 and 25—the market raised hopes that it was on the verge of emerging from its trading rut and resuming the major upward trend. There was no follow-through to any rally, however, and the net result at this writing is that another trading shelf has been set up just a notch or two above the preceding one.

There are various minor indications supporting an optimistic view. Even on days when the averages get nowhere an impressive number of individual issues manage to make new highs for the year. New lows are few and far between. The story told by day-to-day variations in volume is bullish in that greatest activity remains persistently on the side of advance.

Yet the most significant fact is that over a period of about seven weeks little or nothing has been added to the initial concentrated advance which followed outbreak of war. The sidewise drift of the industrial average over this extensive period—a period of major advance in business activity—reflects doubt and uncertainty in investment and speculative minds. It also reflects a shift in the character of the market, however, for on balance "war babies" are materially lower now than they were seven weeks ago, with the exception of aircraft, and this down-pull on the average has been approximately matched by the up-pull from other stocks upon which second-thought demand has gradually converged.

One cannot help but be impressed by the stubborn caution with which the market continues to appraise the current high level of business activity and earning power. Clearly, it is looking beyond these visible realities, for we have only two more months of 1939—and while these two months will certainly be very good ones for business, what lies beyond the year-end is, of course, much less assured. Moreover, looking at the relationship of the market level to that of business—as shown for the late October season of each year back to 1929 on a special chart accompanying this article—it is pointless to argue that the present lag is too wide and that it must be narrowed by market advance. Perhaps it will be, but there is no such thing as a "normal" relationship or a standard price, in terms of the market average, for a given volume of business.

The prevailing psychology and the consensus regarding future volume and profits obviously have more to do with it than the circumstances mirrored in the production indexes. There is nothing infallible, however, about any market consensus, including the present consensus of doubt and caution. When depression sets in after a considerable period of good times there is a general tendency to doubt it and to fight it. This sentiment has its counterpart when recovery comes after long depression or repeated disappointments—and it may in part account for the present caution.

In any depression range of business, a lag in the market is not suspicious, for earnings are the primary consideration; and near the top or "normal" range of business activity profits increase out of proportion to changes in volume. Hence the market rises relatively more than business. Looking again at the chart on page 74, it will be observed that the present relationship between our business and market indexes appears to resemble that of October, 1937. In each instance business is seen to be at a high level and the market at a relatively low level. In October, 1937, of course, the market was not behind business but well ahead of it—as many learned to their sorrow. We think the analogy ends right there.

Among business men, Government officials, investors and speculators we have seldom, if ever, seen such unanimous emphasis on the desirability of caution. People are afraid the war may end soon but have equally deep misgivings about a long war. They do not want to see commodity prices go down but neither do they want to see an inflationary boom. The 1937 economic collapse and the inventory inflation which preceded it are still fresh in the minds of all. Since inventories are now expanding again, we are warned to guard against similar trouble.

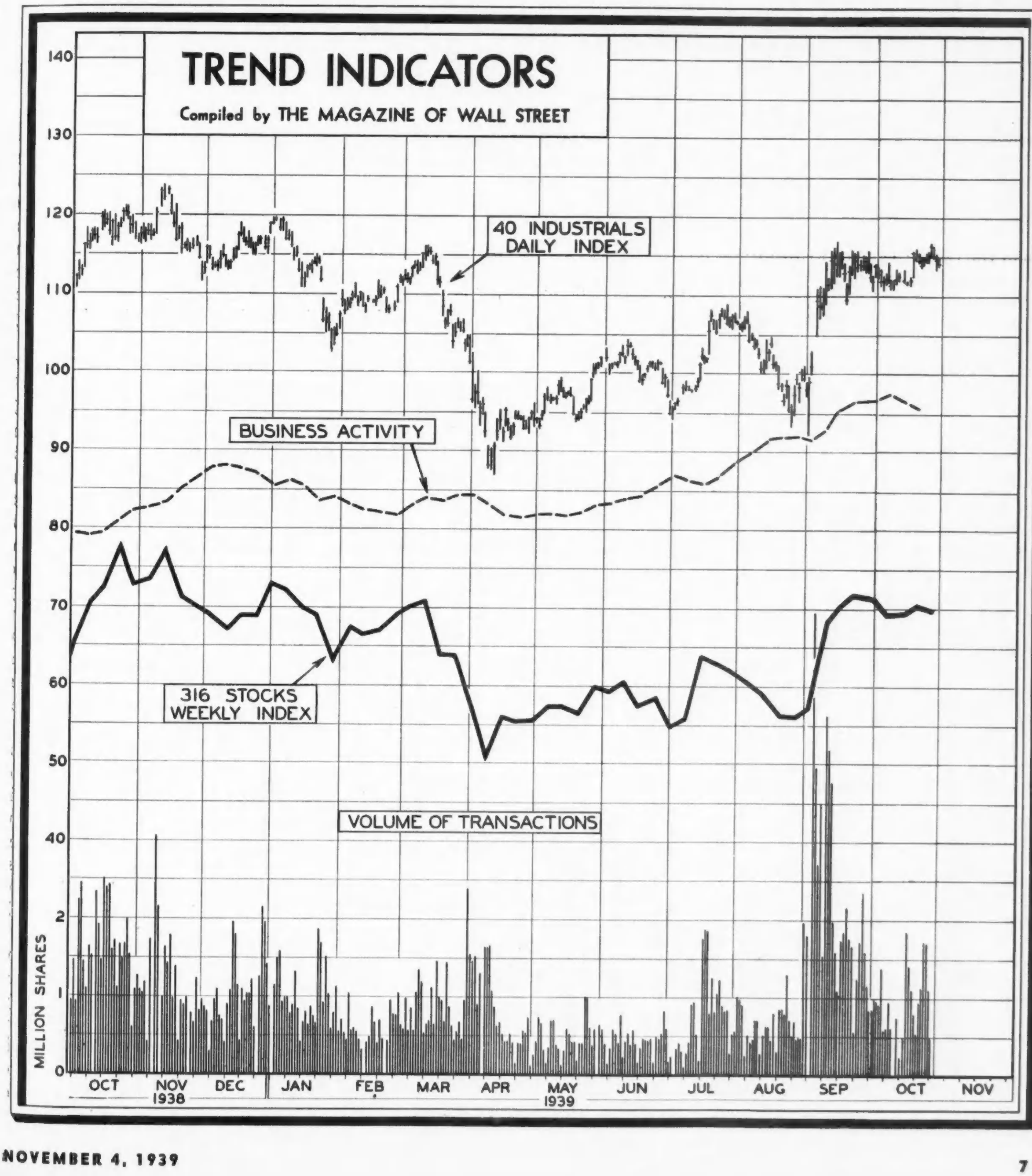
We can't help but feel that so nearly unanimous a chorus of warning voices is much more likely to prove wrong than right—wrong in its major premise or its timing or both. While inventory statistics are sketchy, the evidence can hardly be questioned that the present inventory position is lower—both in actual volume and in relation to consuming demand—than it was last spring, and not remotely as vulnerable as the position reached

in 1937 when the spiral of wage-price-inventory inflation had been running for many months rather than a few weeks as in the present instance.

Again, the official planners who are supremely confident that what happened in 1937 was that business "priced" itself out of a market, ignore the fact that the Federal Reserve Board had given us a dose of deflation which caused the commercial banks to liquidate some $2,000,000,000 of bond-credit in virtually record-breaking time. The monetary-credit base for economic expansion is stronger now than at any previous time in our history—and we don't believe the Reserve Board will dare monkey with the brakes again any time in the foreseeable future, any more than we believe business men will rush ahead to repeat the inventory mistakes of 1936-1937.

In the face of excellent business, the market's own disappointing action is perhaps the most positive cause of prevailing skepticism. Does the market "know something" not yet visible to the naked eye? It could be, but we doubt it—for the absence of movement either way suggests that on the selling side conviction is just as lacking as on the buying side.

Clearly, the chief uncertainties in the minds of investors and traders relate to the duration and character of the war—upon which its unpredictable economic effects depend—; the staying power of our domestic recovery; and the scope of British liquidation. The market, in our



view, simply and perhaps naturally has not yet been able to make up its mind as to the balance of future probabilities. When it does make up its mind prices will move either up or down—and until we see cause, either in the economic-financial factors or in more definitely bearish technical indications, to alter our faith in the major upward trend we are inclined patiently to give the bull side the benefit of the doubt.

Unfortunately, there is no official information yet available as to the actual proportions of British liquidation in this market. The market's own performance appears to testify that it can't be really heavy and that it is being cautiously handled to take advantage of periods of strength. It may very well be an effective restraining force for the present chiefly because its real extent is something of a mystery and because the market is otherwise doubtful.

There are three reasons for British selling. First, the September rise enables liquidation at relatively attractive levels. Second, the depreciation of sterling adds very substantially to profits of British holders when the dollar proceeds of sales are converted into sterling and taken home. Third, British war time restrictions hamper liquidation of most types of property in England, so that persons who need cash and own American securities find them the easiest type of wealth to liquidate. If American investors were convinced that a period of sustained good times lay ahead, the market undoubtedly could absorb British selling in its stride, especially since it is partly offset by buying from certain neutral countries aside from the United States.

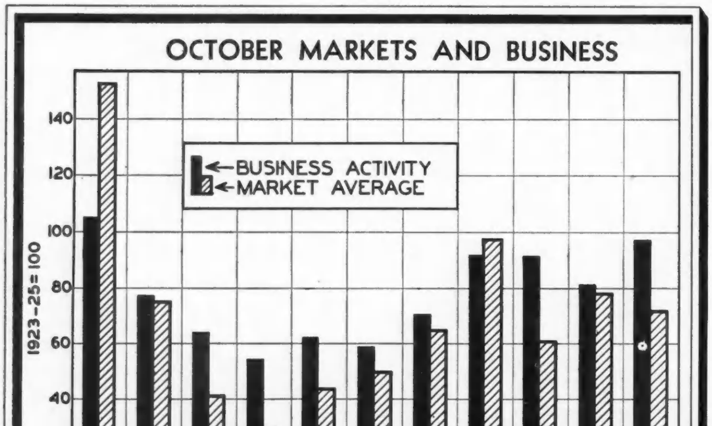
The Surprising War

The war to date has been a surprise to many people. A notable, but scarcely typical, example of mistaken speculation has been provided by the case of sugar, which advanced sharply on outbreak of hostilities but which has since given up all of the gain. On the whole, however, the sharp additional stimulus to the upward business trend previously in progress in this country was not a matter of speculation in prices or in future war orders. Inventories and prices were very low. Business men reasoned that prices certainly would not go lower, and since the only conceivable change would be advance there was a general move to expand inventories. While placement of new orders has slackened in recent weeks, there has been a large volume of belated buying by firms and individuals needing more materials or goods but who waited to see if initial price advances would be followed by reaction. Despite some exceptions, the broad price picture is one of continuing firmness.

Although complete inventory statistics are lacking, it is to be doubted that there has been a dangerous increase or that, with consuming demand at a high level, inventories *can* be substantially expanded in the aggregate except by several more months of active production. Bearing on this point, September produced an increase of 61 per cent in new orders received by manufacturers reporting to the National Industrial Conference Board but at the end of September inventories of the 163 reporting companies were actually 1 per cent less than at the close of August and 7 per cent less than a year before.

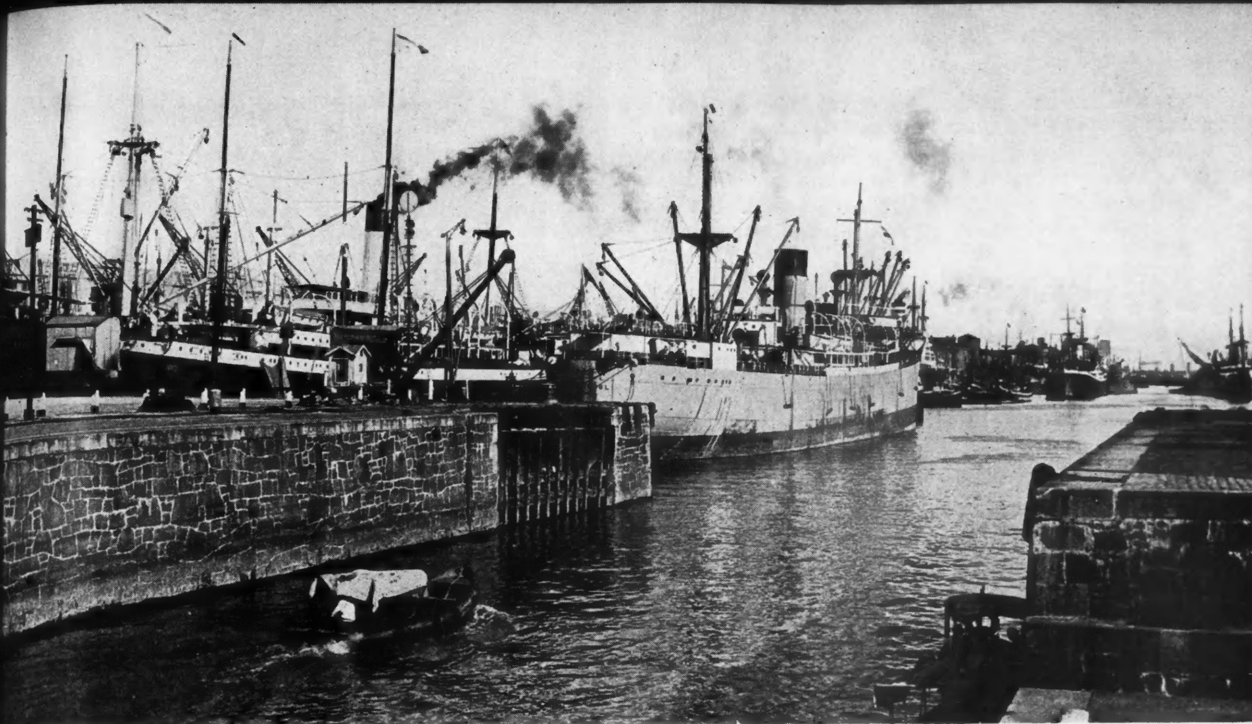
Meanwhile, retail trade figures have become almost as sensational as were new orders in mid-September. For the latest week department store sales on a national average were 11 per cent ahead of a year ago, with gains of 23 to 34 per cent in such industrial centers as Cleveland, Akron, Toledo and Pittsburgh. Consuming demand for durable goods, notably automobiles, is equally impressive.

Indeed, there is considerable factual evidence to suggest that the market would now be higher than it is if war had not broken out. The present level was approximated at intervals in both January and March. From the first quarter low to the end of August our business index advanced approximately 12 per cent, while the additional net advance to date after outbreak of the war has been less than 5 per cent. The vigor of our recovery, ex-war and especially in the exceedingly important durable goods sector of our economy, has been obscured in all the recent excitement. For example, from May to August—a period when war fears were a restraining factor—the Federal Reserve Board index of durable goods output increased from 71 to 93, a gain of about 30 per cent. The August level was 45 per cent higher than in August, 1938.



Moreover, breaking down confidential and timely data on new orders available to this publication, the present situation is that new orders for consumption goods have declined moderately from the September high, but new orders for both consumers' durable goods and for capital goods have held very close to their post-war high which was made around mid-October.

To all of this it may be added that if we take the market's range over the past six years, as measured by our broad weekly price index, we are 27 points above the lowest level but 51 points below the upper level. Certainly this is moderation. While the position may be somewhat uncertain, can it be seriously vulnerable? We think not.



Wide World Photo

View of the busy harbor of Buenos Aires, Argentina.

The Potential Boom in Latin-American Trade

By DR. MAX WINKLER

PURSUANT to a resolution adopted during the recent Pan American Conference at Panama City, a meeting has been, or is about to be, arranged for November 15 at Washington by the Inter-American Financial and Economic Committee to devise ways and means of assuring closer co-operation among the 21 American republics. It has been suggested that since there is no existing mechanism for exchange of information between the United States Treasury and the treasuries of the Latin American republics, serious consideration will be given to the desirability of creating an inter-American institution to insure permanent financial co-operation between the treasuries of the republics. The agency will be sponsored by all American republics, similar to the B.I.S. (Bank for International Settlements) which has operated in Europe for a number of years. It will concern itself with problems of monetary relationship, foreign exchange management, balance of international payments, and ways and means of financing Latin American trade.

Will a Latin American trade boom materialize as a result of the efforts on the part of Administration officials, or will the boom prove largely academic, as seems to have been the case with the widely advertised boom resulting from increased trade with Europe? In a recent article in the MAGAZINE OF WALL STREET, the writer attempted to set forth the fallacy in connection with ideas relative to the fantastic profits which certain quarters predicted would accrue to American business as a result of the cataclysm across the Atlantic. The position which the nations South of the Rio Grande occupy is radically different, largely because the Southern countries are more or less obliged now to come to the United States.

Shortly after the outbreak of the European war, American manufacturers of railway equipment received from the Brazilian Central Railway Company orders valued at six million dollars, "one of the largest orders for American rolling stock placed by a Latin American country in many months." The U. S. Department of Commerce proudly announced that "the transportation division . . . in co-operation with the American Commercial Attache's office at Rio de Janeiro played a part in securing the order for the American firms," adding that "the Brazilian purchase is believed to be the forerunner of other acquisitions by Latin American countries." Of the purchase

price, half, or three million dollars has been made available to Brazil by the United States Treasury Department under a special reciprocal (sic) arrangement which provided that the United States undertake to sell gold to Brazil at such times and in such amounts as the Brazilian Government may require up to a total of $60,000,000.

European Distraction Helps

American manufacturers will doubtless welcome the Brazilian order, as well as other Latin American orders which are bound to be placed because of the difficulties which the Southern republics are encountering and will continue to encounter in connection with purchases from European, notably British and German, manufacturers. It has been reliably reported that Chile has not had delivery from Germany of a $3,000,000 order of rolling stock which it placed with German railroad manufacturers in 1937. Other countries undoubtedly had or will have similar experiences. In short, the outlook for increasing American exports to Latin America appears exceedingly favorable. Curtailment of shipments from European nations now at war should benefit the United States substantially. Exporters and shippers are also expected to derive considerable benefit from the proposed liberalization of shipping provisions in the pending Arms Embargo Repeal Bill.

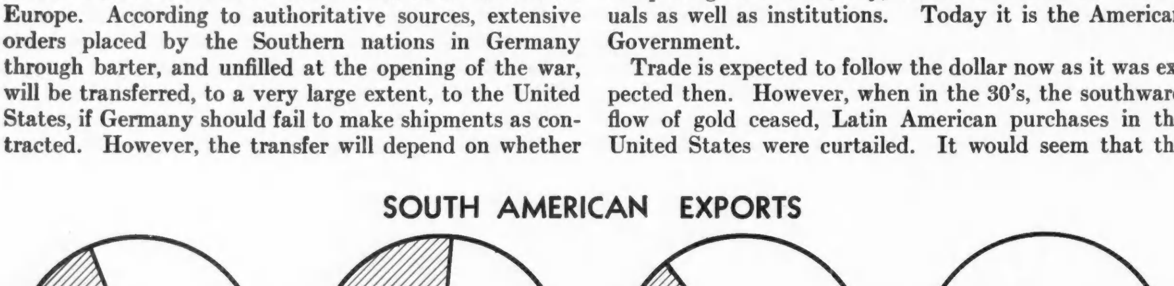
In addition to Brazil and Chile, Argentina, Colombia, Ecuador, Bolivia and Mexico are looking to the United States as a result of the severance of trade relations with Europe. According to authoritative sources, extensive orders placed by the Southern nations in Germany through barter, and unfilled at the opening of the war, will be transferred, to a very large extent, to the United States, if Germany should fail to make shipments as contracted. However, the transfer will depend on whether sufficient credits can be opened in the United States on behalf of Latin American buyers.

There seems to be no difficulty in locating, in the countries South of the Rio Grande, customers for American products. There is, however, one serious drawback: Latin America is in no position to pay for what she needs or what she may wish to purchase in the United States. With but few exceptions, the various Southern republics do not rank high as financial risks. Their contractual commitments are in complete or partial default and, as a result, are selling at levels which would make it absolutely impossible to float any new issues or market fresh securities. Of the twenty Latin American republics, eighteen have borrowed in the American market. Of the eighteen, only one, the Republic of Argentina, is meeting in full the service on its direct and contingent obligations. Two, Haiti and Santo Domingo, have been meeting interest in full but have reduced or omitted sinking fund payments. Each of the remaining fifteen is in complete or partial default. However, default seems to constitute no insurmountable obstacle.

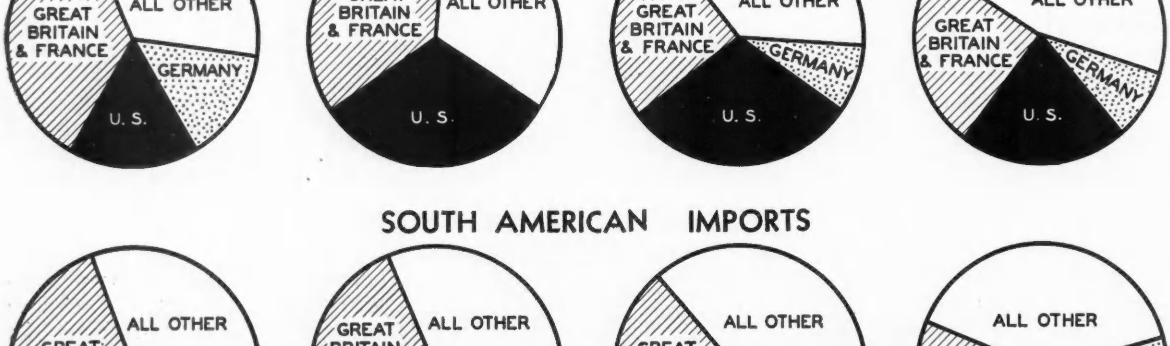
Washington is both anxious and willing to finance Latin America's trade. The various governmental agencies are prepared to lend money to the Southern republics with which to buy American products. Conditions are similar to those which existed in the 20's, when hundreds of millions of American dollars flowed South of the Rio Grande. The only difference resides in the identity of the creditor. In the 20's it was the American investor in Latin America, comprising thousands, nay, ten of thousands of individuals as well as institutions. Today it is the American Government.

Trade is expected to follow the dollar now as it was expected then. However, when in the 30's, the southward flow of gold ceased, Latin American purchases in the United States were curtailed. It would seem that the

SOUTH AMERICAN EXPORTS



SOUTH AMERICAN IMPORTS



Southern countries preferred to place cash orders in Europe, but buy on credit in the United States. American manufacturers did not appreciate the fact that it was the American public who had paid in part for sales to Latin America. The sudden cessation of loans made it difficult for Latin American borrowers to meet their dollar engagements which had previously been met with fresh borrowing. Administration quarters were inclined to hold the defaults, which were occurring with distressing frequency, responsible in part, at least, for the economic collapse in the United States. This view is wholly untenable, although suspension of payments on the part of Latin American debtors may have contributed to the intensity of the crisis. Washington now seems prepared to engage in a venture which it most bitterly condemned when engaged in by others. Will the Government's policy towards Latin America produce results different from those produced by the American bankers and through them, by the American people?

U. S. Trade and Investments—Latin America vs. Europe

	1939*	1938	1937	1929	1915-20‡ (ann. av.)	1911-15 (ann. av.)	1913
U. S. Exports	$1,415	$3,094	$3,349	$5,241	$6,417	$2,332	$2,448
to Latin America	279	564	639	973	865	305	339
in % of total	20.2	18.2	19.1	18.6	13.2	12.9	13.9
to Europe	571	1,326	1,360	2,341	4,124	1,517	1,500
in % of total	40.8	42.8	40.6	44.7	63.2	64.0	60.0
U. S. Imports	$1,095	$1,961	$3,084	$4,399	$3,358	$1,712	$1,793
From Latin America	268	485	705	1,107	1,179	469	444
in % of total	24.3	24.2	22.7	34.1	35.1	27.3	25.2
From Europe	314	567	843	1,333	682	798	865
in % of total	28.5	28.3	27.2	30.3	20.3	40.6	49.2
Total U. S. Trade	$2,510	$5,055	$6,433	$9,640	$9,775	$4,044	$4,241
With Latin America	547	1,049	1,344	2,080	2,044	773	783
in % of total	21.8	20.9	20.9	21.6	20.9	19.8	18.5
With Europe	885	1,893	2,203	3,674	4,806	2,315	2,365
in % of total	35.3	37.8	34.2	38.1	49.2	57.8	55.8
U. S. Investments		$11,759x	$13,694†ip	$17,010ip	$6,956oip	$3,514uip	$2,625**
In Latin America		4,101	4,551	5,429	2,406	1,649	1,375
in % of total		34.2	33.3	31.9	34.5	47.1	52.4
In Europe		2,327	3,026	4,601	1,987	692	350
in % of total		19.4	22.1	27.1	28.4	19.8	13.3

*—Period January-June, 1939. ‡—Based upon period July 1, 1915-December 31, 1920. x—Estimated by U. S. Bureau of Foreign and Domestic Commerce. **—Estimated by the writer. ip—Estimated by Cleona Lewis in "America's Stake in International Investments." †—Figures are as of the beginning of 1936. o—Figures are as of the beginning of 1920. u—Figures are as of the beginning of 1915.

American holders of Latin American bonds in complete or partial default will find it difficult to explain the Government's policy towards its southern neighbors. They will recall the so-called Johnson Act, which makes it unlawful for any individual or institution to lend to any Government which is in default on its debts to the United States Treasury. Why, they will in all probability inquire, should the Treasury be permitted, nay, urged, to lend money to those governments which are in default on debts to the American people? They will be particularly anxious to obtain enlightenment on the status of some 370 million dollars par value of Brazilian Government, State and City bonds in complete default since December, 1937, in view of the substantial accommodations which Washington has made to Brazil. They will recall an official communique which the State Department released under date of March 9, 1939, relative to documents connected with and conversations between spokesmen for the United States Government and representatives of Brazil pertaining to certain economic and financial problems affecting the two nations. The text of the communique reads as follows:

"The Minister (Sr. Oswaldo Aranha, Minister of Foreign Affairs of Brazil) has likewise engaged in discussions . . . relative to the status of the Brazilian dollar debt and has announced that *the Government of Brazil intends to resume payments on July* 1, 1939, *on account of interest and amortization on such debts* in accordance with a transitional arrangement. . . . The Minister has also stated that it is the hope and expectation of his Government that with the improvement in its foreign commerce which it now foresees, a permanent settlement, which will be equitable and satisfactory to all interests involved, will follow upon the expiration of the temporary arrangement."

They may also recall a communication dated Washington, March 9, 1939, which Secretary of State Cordell Hull addressed to Sr. Aranha, which contains the following:

"I welcome the information that your Government plans to *resume payment on July* 1, 1939, *on account of interest and amortization of the external debt of the Government of Brazil and of the Brazilian states and municipalities,* in accordance with a transitional arrangement, and that it is the hope and expectation of your Government that with the improvement in its foreign commerce which it now foresees, a permanent settlement, which will be equitable and satisfactory to all interests involved, will follow upon the expiration of this temporary arrangement."

American holders of Bolivian bonds, aggregating some 60 million dollars in complete default for many years, will perhaps wonder at the wire which America's representative at the Panama Conference sent to the State Department urging an immediate loan to Bolivia of two million dollars. Holders of Colombian bonds will be especially curious about the anxiety on the part of Washington to lend the Republic eight millions.

Students of international finance agree that expansion in foreign commerce is, to a large extent, dependent upon the willingness on the part of exporting nations to extend financial aid to importing (*Please turn to page* 126)

Happening in Washington

Spending for Defense

BY E. K. T.

No armament boom is foreseen in the midnight oil now being burned by Army and Navy budget officers preparing appropriation requests to be submitted to Congress in January. Expenditure for military purposes next year will be larger—an all-time high for peace years, but while providing important orders for industries of many sorts it will hardly be of proportions to create a business upsurge comparable to the rearmament prosperity levels of several European nations.

Defense appropriations for the current fiscal year are approximately $1½ billion, plus additional contract authorizations and some collateral spending such as Maritime Commission and Coast Guard which bring the total close to $2 billion. The current programs are well up to schedule so that every dollar will be paid out by next June and probably some deficits incurred. In addition, the President has authorized increased enlistments which will make further drains on the till. So supplemental appropriations for the current year are inevitable.

For the 1940-41 fiscal year, budget for which will be submitted in January, probably around $2 billion will be appropriated. Even if they wanted to, Army and Navy officials can't, under the budget law, tell how much they will ask the Budget Bureau to approve, so forecasts must be based on estimates of the practical limits within which defense plans can be expanded. There is also the political factor, for while big defense appropriations were voted last year without a squawk and there is a general approval of preparedness, too big a program would raise questions as to the sincerity of the Administration's pacific declarations.

War Department appropriations probably will not be much greater than the billion dollars available this year. The two-year aircraft procurement program to reach a fleet of 5,000 to 6,000 planes is well on its way and more than half of this authorization will be spent this fiscal year. Request may be made for some additional big bombers but beyond this the air force will not be greatly expanded. Motorization of the five new "streamlined" Army divisions will be largely completed with the 12,000 trucks now on order for delivery next spring, and supplementary purchases of automotive equipment will be in smaller batches. Acquisition of tanks and weapons next year is not expected to exceed its present rate. Army men are never satisfied with their facilities, but many admit the big increase in funds this year will fill big gaps in the deficiencies and the rate of expansion need not be increased.

The Navy will probably get the bigger share of any increase in defense spending, and much of this will perforce have to be spread over several years, as it takes a long time to build a battleship, drydock, or naval base. Present shipbuilding activities are up to schedule and are expected to remain so because of intense planning and coordination. While three shifts are now being used on some Navy Yard operations, the program could be speeded up a lot without loss of efficiency, but probably not by more than 50 per cent. Suggestions for a "two ocean navy" are largely discounted, and while the rate of navy ship construction will be maintained for some time the likelihood is that no huge increase in the size of the fleet will be voted until more is learned of the effectiveness of capital ships in the present war.

Increased enlistments authorized by the President will call for more money for pay, equipment and housing, but the aggregate will not be large as government expenditures go. Some of the equipment will be taken from stock, and barrack facilities have been increased through relief spending in recent years. Additional spending on this account will benefit many industries but the effects will be quite dispersed. The regular army stood at 165,000 men last June and Congress authorized an increase to 203,000 during this year, and now the President has stepped this up to 220,000. The National Defense Act authorizes a maximum of 280,000 men, so expansion next year can hardly be greater than the current rate. Additional enlistment programs of the National Guard and the Navy are in about the same ratio.

Educational orders, not intended to be profitable to business, have been greatly expanded, but the present appropriation of $14 million will not be boosted much, if any, next year. Purchases of strategic materials for reserve may be boosted from the $10,000,000 now available to the full $25,000,000 authorized for next year.

Pilot training program may be expended by a couple of millions, and a big airport building program is sought by Civil Aeronautics Authority. Existing authorizations for new Army and Navy air bases will call for much heavier spending there if the program is to be completed, but much of this will be spent outside the Continental United States. Expansion of Panama Canal facilities and defense will call for more money, much of it to be spent on the spot.

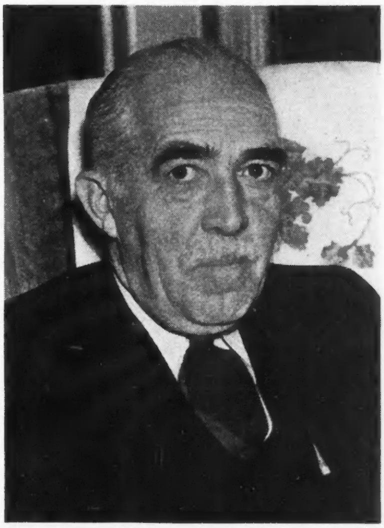
Reports are current of new defense plans calling for staggering additional appropriations, but it is doubtful that the President himself has a very definite idea how much his 1941 budget will provide for military purposes. Best estimates are that unless involvement of U. S. in present war appears more likely next spring the rate of defense spending will not be increased very greatly. Expenditure of $1½ to $2 billions a year for all kinds of Army and Navy needs naturally distributes quite a bit of change around the country, from armor plate manufacturers to peanut vendors near service posts, but much of the spending is widely scattered and spotty and the total is less than recent relief and pump-priming programs, so while "war babies" may thrive and all business feel some stimulus, the U. S. preparedness program as now visualized is not calculated to touch off an armament boom.

CAPITOL BRIEFS

Commodity prices are being watched closely by administration as the key to future business activity and consequently political moves designed to affect business. Adhering to their thesis that the 1937 recession was caused by business pricing itself out of a market, the New Dealers are determined not to let this happen again. Moral suasion and inventory analysis are being used now, but if basic prices, such as steel and copper, go up in next few weeks price control legislation will be proposed. Exact form of this is still being debated, but research on methods and legality is intense.

Oil conservation is under attack by powerful New Deal elements which see it as a price-raising device even when based purely on engineering principles, which they suspect it never is or would be. Interior & Commerce Depts. defend conservation and want more of it (under Federal control), while Justice and other agencies represented on T N E C want removal of any and all restrictions on free play of competition on prices, regardless of future generations.

Corporation accounting reform to give government, public and stockholders more information is an objective of S E C and other federal agencies which has not been forgotten and will be advanced in near future. It cropped out in T N E C oil hearings when a couple of days were spent criticizing major companies for not having uniform accounting methods, not knowing exact cost of producing and marketing gasoline, not showing clearly earnings of various departments. Such reform is very likely to be among T N E C legislative recommendations next year.



Wide World Photo

Lieut. Colonel Philip Fleming, New Wage-Hour Administrator.

Federal licensing or incorporation of companies doing interstate business is being plugged by its author, Sen. O'Mahoney, at every opportunity but it is apparent he does not have all of T N E C behind him. New Dealers generally, while interested, have not taken this idea to their bosom, possibly because Teddy Roosevelt thought of it first, so O'Mahoney's bill may have tough sledding.

Wage-Hour administration is laying groundwork for big expansion of industry committees to boost minimum wages to 40 cents as soon as possible, since the statutory minimum, just raised to 30 cents, will not rise to 40 cents for another six years. Congress and Col. Fleming, new wage-hour chief, may have other ideas, but lesser officials are all set to go and want to take over Walsh-Healey government contract wage-setting business.

Building anti-trust drive is running into difficulties when it touches labor unions, which is most everywhere. A. F. of L., of which building trades are the backbone, is bringing much political pressure, some of which is being felt at Dept. of Justice. Arnold's trust-busters are indignant over construction costs caused by jurisdictional disputes and other arbitrary union rules and want to go right down the line regardless of politics, but they may be soft-pedaled.

Business forecast of New Deal economists is important in political action it portends. Belief is industrial production will reach peak within three months and then slump seriously unless foreign war orders come in faster than now seems probable. Speculative buying and inventory stocking is felt to be important factor in present upswing, and slowing of this plus stiffening prices will soon curtail output; also that employment, while rising, is not keeping pace with production. So plans are being made to offset a slump.

New relief program is in the cards, also more public works and revival of low-rent housing bill, with continued liberality in defense spending. The spend-lend bill is far from dead and will be pushed again as a flexible program to take up business *(Please turn to page 127)*

√ **Turn Away Business? —— Or Risk Expansion?**

A Contrast in Capacities

BY JOHN D. C. WELDON

THERE has never been a time when so many firms in this country were so seriously considering the possibility of rejecting profitable orders. If there is exaggeration in that statement it lies only in the failure to define more precisely the type of business in danger of being spurned. "Immediate shipment" or "shipment within thirty days" are the major catches, but frequently promises to deliver ninety days or six months ahead would be acceptable to the purchasers. In that time additional equipment could be put to work on the order even if it meant buying the machinery and finding space to house it. But the American business man remembers two horrible examples of over-expansion and he is determined neither of those two bits of history shall be repeated.

Building any factory or installing new equipment is a speculation on the orders to keep it busy. Today the choice between expansion and refusing business immediately ahead is thrown squarely at many lines of industry. The answer will be different in many ways than in 1915. Few have forgotten the costliness of idle plants erected then and since in moments of enthusiasm. Yet despite an extremely wary approach to the problem business is already giving signs that not all solutions will be negative.

It is natural that war surroundings should make very vivid our last experience in filling a sudden rush of war orders. They came as a surprise, back in 1915, to a young industrial nation just ready for that sort of bonanza. We had enthusiasm, little sophistication to bother us with doubts as to what would happen next, and an immense respect for the man who could fill an order book. Once the business began to pile in it was simply a question of how rapidly we could build factories and set up machinery to handle it—never a question of whether those factories might afterward lie idle for years and more than lose the temporary profits.

Without belittling the warning of the example, though, it might be instructive to look further into it in search of a guide for today. The textbooks provide some such generalization as this: "The consequences of the reckless expansion in 1915-1918 were disastrous for many concerns and left the economy ripe for a slump when the war orders ceased, as they inevitably did." That is true enough but not specific enough. The business man and the investor whose money he controls are now faced with problems that require definite answers in terms of net cash results.

Number one in the list of 1939 war babies is Bethlehem Steel, and to a great extent because it was also number one in 1915. What happened to Bethlehem after its weaning from the earlier diet of war orders?

Well, for one thing, Bethlehem paid dividends of $22.50 a share on its common stock in 1916, followed the next year by $23.50 a share plus a 200 per cent dividend in class "B" common stock. But at the same time it pursued a policy that gave the company its start toward what it is today. Here is the record in totals for the years 1915 to 1921 inclusive: Dividends—$27,095,000; reserved for depreciation—$100,998,000; plowed back into surplus after all charges—$100,162,000! And while war orders were at their juiciest, Bethlehem was using the profits to spread out of armament lines, to buy a rail mill in 1916, a producer of bolts, nuts and rivets in 1917. Whatever its other faults before or since, this company was able to use an opportunity as opportunities are meant to be used, with an eye to the future.

No chance to duplicate those results, either proportionately or actually, is likely to exist today. For one thing, the tax collector has a greedier hand in everyone's affairs. Prices in 1939 or 1940 will decidedly not permit the profit margins of the past. And the demand-supply equation has been so radically changed that no firm is in position to make its fortune in a year or two of multiplying profits. Nevertheless, the possibilities are still present, though on a smaller scale, provided any permanence can be conceded the present levels of business.

Part of the reluctance to expand when business on the books for immediate delivery outruns capacity is due to mistrust of the trend of industry. This is entirely apart from the question of war orders, as many of the problems arising today actually are. For a decade the lesson has been taught that every rise has a reaction in close proximity. Business has apparently learned the lesson and perhaps too well for its own good, although an excess of conservatism at this point is by no means

an unwelcome phenomenon. The very speed of approach to the activity of 1937 or 1929 has outraged the orthodoxy of some industrial leaders, who were not in many cases distinguished by the same timidity in *either* 1929 or 1937. Their past record should not be held against them here, however, for circumstances are certainly far enough out of the ordinary to make it worth while listening to the most discredited of prophets who will back his visionings with reasons.

Those companies facing concrete war orders which will require new capacity to fill have a different problem. Their boards of directors should include at least Hitler, Daladier, Chamberlain and Stalin (and all of them substantial stockholders preferably) if we are to expect any truly inspired judgment as to how long the war or the orders are to continue. They lack not only the prophets but the profit margins of a quarter century ago as well; they face appalling new problems. Any plans may be knocked askew by a decision of the politicians or of public sentiment. For example, several amendments to the law amending the neutrality bill which were defeated by none too wide margins would have liquidated new factories more quickly than those in Poland if they had happened to pass.

Courtesy Carnegie-Illinois Steel Co.

With its $60,000,000 Irvin Works barely into production and operating at capacity Carnegie-Illinois (U. S. Steel subsidiary) is about to let contracts for three more mills at this plant. Additional cost—$10,000,000 plus.

Leaving all hypocrisy aside, there are very few American industries with a great deal to gain from war—from killing, and destroying wealth. Whether they realize it or not, a war not only wrecks purchasing power for armaments through preventing normal gainful occupations; it removes the need to arm for some time after its close, and it reduces the popularity of "armed preparedness" which is the ideal state for munitions makers. A war is apparently the best and the only guaranty against another war. They can't happen too frequently, or not enough food will have been denied the people to pay for the next one.

Therefore the minority of business which could be called munitions makers has an especially difficult problem. The existence of a war is assurance that demand for their products will cease suddenly at some time in the near future and will not build up again for years to come. Perhaps that is the reason why so few industries or companies in the United States have devoted any important part of their capital to war requirements.

The aircraft makers will occur as an obvious exception, yet it is at least arguable whether they have anything to gain from French or British orders for their planes. Practically all of them have stepped up operations in the last few months—Douglas, North American, Consolidated, United, Curtiss-Wright—but none of them need guns to destroy what they have built and make room for more sales. The tempo of the industry is that of the automobile. Obsolescence works faster and more efficiently than anti-aircraft fire.

Such industries as aviation, of course, have received a fairly recent dispensation from the rigors of the law limiting their profits on sales to the United States Government. Where fulfilling orders will involve capital outlays in new plant or equipment a substantial part of the investment is to be written off in each order before calculating profit margins. All this is subject to negotiation between the Treasury Department and the company planning the expansion, but it recognizes very definitely the difficulty confronting those firms which, while not working under any profit limitation, must nevertheless consider the cost of capital outlays in deciding upon the profitableness of any business.

Expansion in Certain Fields

Factory building contracts reported in September by the F. W. Dodge Corp. were approximately double the contracts awarded a year ago. The total is still not impressive in comparison with figures of the glorious decade; the question still remains—shall we expand at this time in the hope that the cost of expansion can be realized within the assessable future?

Many companies have gone on with their growth plans all during the earlier months of the year and are continuing to map out future additions to their capacity. Westinghouse Electric is going into the aviation equipment business. The paper industry has steadily added to capacity and is planning further additions. Oil refineries are being built or contracted for at a really astonishing rate, although the im- *(Please turn to page 123)*

How Long Can Steel Maintain Activity at 90% of Capacity?

War Demand and Price Outlook Are Chief Uncertainties

By WARD GATES

THERE is an old saw to the effect that when monthly steel operations hit 90 per cent of capacity it is time to sell steel stocks and, by implication, other cyclical issues as well. Like most dictums of the sort, there is just enough truth in this one to give pause.

True, it did not hold water in 1929 when steel shares, on average, soared another 43 per cent after monthly operations crossed 90 early in the year (though the market as a whole gained less than 8 per cent). But in 1937, when the steel rate averaged above 90 for only the single month of April, steel stocks and the general list had already seen their bull market highs which, of course, have not been approached since. Hence, uneasiness over the present situation.

Not that monthly operations have yet reached the 90 per cent mark. But weekly operations have and the average for November, if not October, should approximate or exceed this level.

How long can it last? Well, certainly through the end of the year, barring an unforeseen and early armistice abroad. Beyond that any forecast would be 99.44 per cent pure conjecture. And even with respect to the near future, the hedge clause against peace must be included. For though foreign buying has thus far been unimportant and domestic business was undoubtedly set for an upturn after Labor Day war or no war, purchasers would scarcely have indulged in so mad a scramble for steel had it not been for the prospect of extraordinary overseas demand. When and to what extent that demand is likely to be translated into actual orders we shall consider later. Meanwhile let's see what sort of domestic demand it is that has lifted the weekly operating rate almost 30 points since September 1.

The bombshell of steel buying exploded almost simultaneously with the first bomb dropped in Poland and the industry has since staged a *blitzkrieg* all of its own. By the end of September virtually all principal companies were sold out through the remainder of the year in everything except rails, pipe and a few specialties. More recently, carriers have joined the buying fray and a larger portion of rail mill capacity has been spoken for.

In rate of gain, the upsurge in operations since the war began has been unprecedented in the industry's history. But the end, at least temporarily, is in sight. Buyers have halted to catch their breath and steel makers are concentrating on eliminating bottlenecks and facilitating deliveries. Most mills are not taking any more fourth quarter business, thank you, and customers wishing to place orders for 1940 can do so only "sight unseen" as to price.

To say that the demand has been broad is almost an understatement. For the first time in years all leading consuming industries—automotive, building, railroads and containers—have been in the market at the same time and their orders have been supplemented from numerous miscellaneous sources. Of the problems the steel industry must face in the months immediately ahead, volume certainly is not one. But problems there are, and knotty ones. For the most part, they can be summed up under the head of costs and prices.

Since mid-August, steel scrap at Pittsburgh has risen nearly $8 a ton. Now, about half the raw material going into ordinary grades of steel, and more in other grades, is scrap. Hence, a rise of $1 a ton in scrap boosts the

Ten-Year Range of Finished Steel Prices

(cents per pound, at Pittsburgh)

	Average 1929	Average 1932	Average 1937	Current Price
Sheets, cold-rolled	4.06c	2.80c	3.49	3.05c
Sheets, hot-rolled	2.12	1.71	2.35	2.00
Bars, soft	1.92	1.57	2.40	2.15
Tin Plate	5.35	4.69	5.22	5.00
Plain Wire	2.46	2.20	2.84	2.60
Strip, cold-rolled	2.77	1.97	3.14	2.80
Strip, hot-rolled	1.88	1.43	2.35	2.00
Standard Pipe	3.52	3.24	3.46	....
Plates	1.93	1.57	2.21	2.10
Structural Shapes	1.92	1.57	2.21	2.10
Rails	1.92	1.89	1.87	1.79

Triangle

Pouring molten steel into huge ingot molds.

cost of producing steel ingots 50 cents a ton or better and an $8 increase lifts per ton ingot costs $4. On finished products, the effect is even greater, running up to $4.80 a ton on low carbon wire.

The squeeze in raw materials is by no means confined to scrap. Pig iron, coal and coke are all sharply higher and an advance of $40 a ton in zinc prices in the past two months has greatly increased the cost of making galvanized sheets.

The larger companies, with sizable material inventories accumulated prior to the boom and a certain amount of scrap available from their own operations, have been fairly well protected thus far. But smaller, non-integrated units, without adequate pig iron facilities and with relatively small supplies of scrap, pig and other materials on hand, began feeling the pinch several weeks ago. Without waiting for U. S. Steel to take the lead, as is customary, a number of these concerns advanced finished prices $3 to $5 a ton and are getting away with the higher quotations because of the industry's log-jam of business.

But before long even the big companies are going to face the same problem. Bulk of the business placed by the motor industry and others at depressed prices early last summer will soon be out of the way and higher prices will be realized subsequently as, needless to say, all concessions and discounts were eliminated instanter with the war's outbreak. But shortly—perhaps currently in some instances—low cost inventories will be giving out and the industry will be digging into high cost materials acquired since the beginning of September.

The obvious solution, of course, is to raise finished prices in line with costs, passing the increase along to the consumer. But with an Administration whose politicians fancy themselves as economists and whose economists are budding politicians, it just isn't as simple as that.

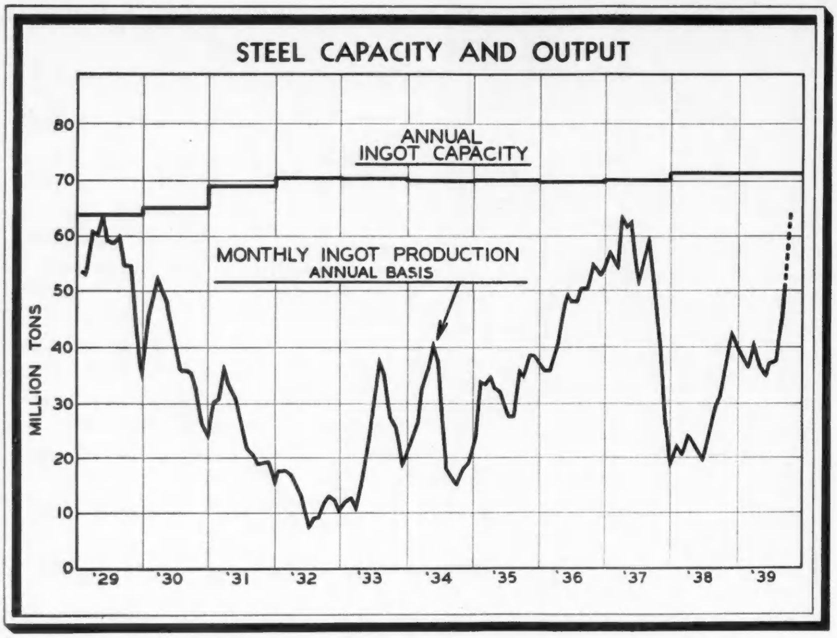
Thinly veiled threats are emanating from Washington to the effect that steel prices had better be left where they are—or else. Just what the "or else" might be can only be conjectured but it is broadly hinted that legislative recommendations pursuant to the T N E C's investigation of the steel industry, just now getting under way, will be governed largely by the industry's decision on first quarter, 1940, prices.

However, if costs require higher finished prices, higher prices there will be, the politicos notwithstanding. And as things now stack up, a moderate advance for next quarter delivery seems warranted. It will undoubtedly be argued by some that no such advance is justified since with the exception of sheets, tin plate, pipe and rails, prices are already above average 1929 levels. But others, more familiar with the industry, can counter in rebuttal that steel today is not the same product it was ten years ago for tremendous improvements in quality have been made. Moreover, basing points have greatly multiplied in number since 1929, thus reducing actual delivered prices. And as for those who fear excessive profits, it need merely be pointed out that the industry's average return on its investment over the past decade has been only 2.4 per cent as contrasted with 5.1 per cent during the 1919-28 period and 8.2 per cent from 1909 to 1918.

Steel Costs Studied in Washington

Fortunately, Washington's attention is not riveted solely on selling prices. Material prices, particularly scrap, are under surveillance too. There is serious talk of an embargo (exports of scrap have risen from 136,125 tons in 1932 to a current annual level of about 3,500,000 tons) and the suggestion has even been made that W P A workers be put to gathering scrap. However, given maintenance of present prices for another month or so, the situation will undoubtedly right itself as it always has in the past. In this connection it is of interest to note that there is no general scrap shortage but only a shortage in principal consuming areas.

What all this will boil down to in terms of earnings can as yet only be estimated in a general way. That is, fourth quarter results, while certain to be sharply above



those of last quarter and the final period of 1938, may still quite possibly fall short of the best figures of 1936-37. Best month profitwise will probably be November when last summer's low price business will have been pretty well cleared off the books, initial boom production snarls untangled and low cost material inventories still not quite exhausted.

Generally speaking, the biggest percentage earnings gains in the present boom, as in those of the past, will be scored by the heavy steel makers—Bethlehem, U. S., Jones & Laughlin and Youngstown. The last named, however, may be somewhat handicapped in the present situation by the relatively large percentage of finishing capacity concentrated in tubular goods which have not come in for quite such aggressive buying as most other lines. Bethlehem, whose shipbuilding interest is more important to it profitwise than U. S. Steel's stake in Federal Shipbuilding, is cashing in on the maritime building boom but, by the same token, stands to lose if that boom is brought to a halt as a result of neutrality restrictions on American shipping. Even assuming adoption of the Pittman amendment easing the shipping provisions of the new neutrality bill, it is estimated by the Maritime Commission that 30 per cent of our present merchant marine will be put out of operation as a result of the bill.

Big Steel, operating about 35 per cent of domestic steel ingot producing capacity, is still the most fully integrated and best diversified unit in the industry. With about 23 per cent of total finishing capacity in sheets, strip and tin plate, 13 per cent in structural shapes, 11 per cent in plates, 16 per cent in bars, 9 per cent in rails and the rest in pipe, wire, etc., capacity is well balanced for anything like normal times. Vertical integration affords considerable protection against the sort of raw material squeeze that is taking place currently.

The probability of an especially rapid earnings rise among the heavy steel producers derives, of course, from their high degree of capital and operating leverage as well as the cyclical nature of demand for such heavy lines as shapes, plates, rails and some types of bars. Sheets, strip, tin plate, merchant bars, wire, etc., that comprise most of the output of the pre-

Twenty-three Leading Steel Makers

	Capitalization*		Earnings per Share		Divs. Pd. or Decl'd	Price Range		Recent Price (Approx.)
	Funded Debt and Pfd. Stk. (par value)	Common Stk. (no. of shs.)	Full Year 1938	Nine Months 1939	To Date 1939	To Date 1939 High	Low	
Acme Steel	$500	328	$1.12	$3.18	$1.00	56½	31½	54
Allegheny-Ludlum	3,336	1,254	d1.04	.54	None	28¼	14	25
Amer. Rolling Mill	47,000	2,870	d1.16	.27E	None	22¾	11⅞	20
Bethlehem Steel	306,229	3,184	d .70	1.88	1.50	100	50¼	90
Carpenter Steel	None	360	.68a	.88ab	.70	33	13⅞	28
Colorado Fuel & Iron	15,518	564c	d1.47a	.10ab	None	24⅞	11⅛	23
Continental Steel	3,707	201	2.32	3.07	.75	32⅛	16⅛	30
Crucible Steel	34,930	445	d8.78	NF	None	52⅝	24½	48
Eastern Rolling Mill	55	210	d1.79	NF	None	8⅝	3¾	7
Granite City Steel	4,000e	382	d .86	.23	None	22½	10	21
Inland Steel	51,800	1,624	3.12	NF	1.50	98¾	67	90
Jones & Laughlin	106,995	576	d17.33	d4.86	None	48¼	17	42
Keystone Steel & Wire	2,000e	758	.96a	1.18ab	.60	16⅞	8¾	16
National Steel	65,000	2,198	3.03	NF	1.20	82	52	75
Otis Steel	27,856	916	d2.17	d .68	None	16	7½	14
Pittsburgh Steel	20,700	504	d2.67ag	NF	None	16½	7⅛	14
Republic Steel	129,272	5,594	d1.86	NF	None	28½	12⅞	26
Rustless Iron & Steel	3,576	877	d .01	.71	None	15½	7	14
Sharon Steel	6,922	388	d1.01	d1.09	None	21¾	106	18
Superior Steel	1,700	113	d2.57	d .28	None	22½	10	19
U. S. Steel	603,688	8,703	d3.79	NF	None	82¾	41⅝	76
Wheeling Steel	70,355	564	d2.44	3.42	None	38⅞	15⅝	37
Youngstown Sheet & Tube	102,000	1,675	d .89	.41	None	56⅜	30	52

*—In thousands. a—Fiscal year ended June 30. b—Full year. c—Plus warrants for 314,914 shares at $35. e—Long term bank debt. g—Year ended Dec. 31. d—$3.30. E—Estimate. NF—Not available.

dominantly light steel makers, enjoy a more nearly continuous market through good times and bad. Moreover, the light steel companies are generally less heavily capitalized than the heavies.

However, substantial if less spectacular profit gains are indicated for such concerns as Republic, National, Inland, American Rolling Mill and Wheeling which are the larger units in the light category. These concerns, particularly Armco and Wheeling whose sheet, strip and tin plate facilities account for upwards of three-quarters of their total finishing capacities, stand to gain from improved prices since last summer's slash in quotations was confined largely to the light lines. This point is even more pertinent in the case of such smaller concerns as Acme, Continental, Eastern Rolling Mill, Granite City, Keystone, Pittsburgh, Otis, Superior and Sharon whose output consists almost entirely of flat-rolled and wire products.

Courtesy Bethlehem Steel Co.

Final inspection of galvanized roofing sheets.

Pick of the larger light steel makers are probably Republic (though it has sizable preferred arrears) and Inland, both of which also have sufficient capacity in the heavier lines to give a fair degree of balance to output. In addition, Republic has an important fabricating interest through its investment in Truscon Steel and is the largest domestic factor in the production of alloy and special steels. Inland, by virtue of plant efficiency and geographical advantages, enjoys operating margins among the highest in the industry. Currently operating at full capacity and booked solid for the rest of the year, the company is expected to report full year earnings comfortably in excess of $6 a share as compared with $3.12 last year and a current annual dividend rate of $2.

The smaller companies, however, are by no means being left by the wayside. Sharon will report a third quarter loss due to shipments against low priced orders placed earlier in the year, but it will be only about one-third of the $148,000 deficit incurred in the June period. Superior probably earned in the neighborhood of 25 cents a share last quarter as contrasted with losses in the two preceding quarters as well as the third quarter of last year. Pittsburgh Steel, which also had been losing money previously, earned something against preferred arrears in the September period, and an excellent final quarter is indicated.

Growth Factor in Alloy Steels

The stainless, alloy and special steel producers—Allegheny-Ludlum, Crucible, Carpenter and Rustless Iron & Steel (49 per cent owned by Armco)—are more or less in a special category since this is the one division of the steel industry where substantial further growth is possible though this will depend in large degree on further price reductions. Biggest customer is the automobile industry which takes more stainless and alloy products than all other consumers combined. The machine tool builders and railroads are the next most important buyers, while the remainder of output is sold to a wide range of miscellaneous users.

Excluding Republic, Allegheny-Ludlum is by far the largest concern in the field, its ingot capacity exceeding that of Crucible, next biggest, about four times over. Only Carpenter and Rustless, however, are engaged exclusively in the production of stainless and alloy steels.

These companies as a group, and Crucible especially, are fully as much war babies, as the heavy steels. To some extent and in varying degree, however, they may also be discomfited by hostilities abroad insofar as foreign supplies of chromium, manganese, tungsten and other imported alloying elements become less easily attainable. This factor, however, would be greatly outweighed from an earnings standpoint by foreign demand for finished products, both direct and indirect, if such develops on a large scale.

Which brings us back to the question posed earlier in this article: how much additional steel business, either direct or via domestic fabricators, can be expected from overseas as a result of the war, and how soon will it be forthcoming?

As far as Allied buying is concerned, there are so many unknowns in the equation that a definitive solution at this time is out of the question. How long will the war last? Will it be an affair of siege, blockade and passive resistance or a war of action and maneuvre? To what extent have the increased steel requirements of mechanized warfare been offset by the increased production facilities of Britain and France? To what lengths will these countries go to fill (*Please turn to page* 122)

The Investment Clinic

—"War Baby" Convertibles
—Other Convertibles

Conducted by J. S. WILLIAMS

A CONVERTIBLE bond might be paradoxically described as a bond which aspires to become common stock. Embodying in their indenture the privilege accorded holders to convert them into the common stock of the issuing company at a stated price, convertible bonds are not only an attractive financing medium from the standpoint of the issuing company, being potentially self-refunding, but they are also attractive to investors seeking the greater protection implied by a bond but who also are not averse to the speculative "kick" afforded by the conversion feature.

A rising stock market never fails to develop considerable public interest in convertible bonds, particularly among investors who normally lean more toward the conservative side, but who find it difficult to resist the opportunities for speculative profits in common stocks. To them the convertible bond, with an attractive conversion feature, appears to offer an ideal compromise—and in many respects it does. There are, however, several points in connection with convertible bonds which the investor should have well fixed in his mind.

At the present time convertible bonds are favored by rising prices for common stocks. At the same time, however, it is important to know how the average convertible bond fares when conditions are less favorable. In a period of receding business activity and declining common stock values, most convertible bonds will be found to be selling strictly on their own. Market prices then represent an appraisal of the bond on its merits as a credit obligation of the issuing company. To that extent the convertible bond safeguards the holder against the more severe depreciation in capital which might have taken place had the investor been holding the common stock of the same company. For example in 1938 Phelps Dodge convertible 3½'s 1952 showed a maximum fluctuation of 14.2 per cent between their high and low, while the company's shares into which the bonds are convertible at the rate of 20 shares for each $1,000 bond showed a maximum fluctuation of 63.4 per cent between their high and low quotations last year.

The ideal time to invest in convertible bonds is when the convertible privilege is not the predominant factor in determining their market price. Once the convertible feature becomes effective, and is substantially reflected in the price of the bonds, the investor must then determine to his own satisfaction whether or not he is justified in paying a sizable market premium for the convertible privileges.

In a period of extremely low interest rates, a deben-

Convertible Issues with a War Background

Issue	Recent Price	1939 Price Range High	1939 Price Range Low	Recent Price Com.	1939 Price Range High	1939 Price Range Low	COMMENT*
Allis Chalmers deb 4's, 1952	110	112	106¼	44	48⅜	28	Convertible into common stock at $75 a share through Sept. 1, 1941. Bonds have good investment quality. Conversion feature, however, has no immediate value. Longer term prospects for common are promising.
Baldwin Loco. Wks. 6's, 1950	136	139	82½	20	21¼	9⅛	Convertible into 65 shares of common through Sept. 1, 1945. Issue is speculative but may be conceded good possibilities in a war dominated economy. Interest being paid in company's preferred stock.
Bethlehem Steel deb. 3½'s, 1952	110	114½	96¼	92	100	50¼	Convertible into common stock at $110 a share through Oct. 1, 1942. Bonds of medium grade investment quality. Common has speculative attraction as a potential war baby.
Phelps Dodge deb. 3½'s, 1952	113	115¼	106½	45	47½	28⅛	Convertible into common stock at $50 a share. Company is one of the leading copper producers with facilities all located in United States. Good quality bond with possibilities for price appreciation.
Republic Steel 5½'s, 1954	109	116	102¾	27	28½	12⅞	Convertible into common stock on basis of 1 share for each $38.04 in bonds. Issue is medium grade but convertible privilege has good possibilities. Company's current earnings sharply higher.
Vanadium Corp. deb. 5's, 1941	114	118½	96	38	40	16	Convertible into 26⅔ shares of common. Company has a definite war background but could prosper with benefit of normal recovery. Bonds attractive short term medium.
Youngstown Sheet & Tube deb. 4's, 1948	113	115½	100	55	56⅜	30	Convertible into common stock at $62.50 a share through Sept. 1, 1942. Medium grade issue with speculative possibilities. Company's current earnings will show good gain.

*—Dates indicate earliest change in terms of convertible feature.

ture obligation of a successful mining enterprise such as Phelps Dodge might be justified in selling on a 3½-4 per cent yield basis, that is between 95 and 100. At the 1938 high at 116, the additional 16 points represent the value of the convertible feature —not the going value, however, but a potential value. The investor who purchased a Phelps Dodge debenture at $1,160 could have converted his bond into 20 shares of Phelps Dodge common, which at their high would have been worth $950. The difference of $210 was a pretty substantial premium to pay, particularly as the bonds were callable at 105. On the other hand, an investor with the debentures was spared the 20-point decline which the stock subsequently suffered and at their low this year the debentures were off only about 10 points from their 1938 high. When conditions are such that a convertible feature becomes so valuable as to reduce the yield on the bond to negligible proportions, bondholders to the extent of the premium are for all practical purposes assuming the same risks as common stockholders.

Convertible Bonds Identified with More Stable Industries

Issue	Recent Price	1939 Price Range High	1939 Price Range Low	Recent Price Com.	1939 Price Range High	1939 Price Range Low	COMMENT*
Commonwealth Edison 3½'s, 1958	121	124¾	104⅞	30	31⅜	25⅝	Convertible into common stock at $25 a share. Company is among strongest utility organizations. Bonds high grade. Divs. on common recently increased to 45 cents quarterly.
Continental Oil deb. 2¾'s, 1948	111	114⅝	103½	28	31½	19⅞	Convertible into 30 shares of common to Dec. 15, 1943. Although company's earnings have lagged, showing has been better than average for oil industry. Bonds have investment merit.
Electric Auto-Lite deb 4's, 1952	108	109½	105¼	40	40⅜	22¼	Convertible into common at $60 through Jan. 31, 1941. Earnings this year will probably exceed $5 a share for common. Bonds attractive for income and appreciation.
Great Northern Rwy 4's, 1946 "G"	106	110	88	33†	33¾†	16¼†	Convertible into preferred stock at $40 a share. Road a leading beneficiary of increased demand for iron ore. Bonds good investment on own merit.
Phillips Petroleum deb. 3's, 1948	113	117	105½	44	46½	31¼	Convertible into stock on basis of 1 share for each $47.50 of bonds to Sept. 1, 1943. Company has long record of good earnings. Current showing only slightly down from last year.
Studebaker 6's, 1945	98	99¼	68	9¾	10	5⅛	Convertible into stock on basis of 1 share for each $12.50 of bonds through Dec. 22, 1944. Popularity of new models and large foreign truck orders lend speculative promise.

*—Dates indicate earliest change in terms of convertible features. †—Preferred stock.

Sight also should not be lost of the call price on a convertible bond. Once the convertible feature is valuable the possibility that the issuing company may take advantage of the call privilege is a live one. The primary reasons behind the issuance of a convertible bond is to "sweeten" the issue in order to insure its ready acceptance by investors and to provide the means for its ultimate retirement, without recourse to additional financing. When the convertible feature enhances the value of the bond beyond the call price the latter objective can be accomplished by the simple expedient of calling the bonds, thus forcing holders to convert—or suffer a loss.

Again using the Phelps Dodge issue to illustrate this point, had the management elected to call the debentures when they were selling at 116, and assuming the stock was selling at its 1938 high of 47½ they would have failed to induce conversion. Conversion was worth only $950 per bond, while the call would have netted holders $1,050. If, however, the stock had been selling at 55, the conversion would have been worth $1,100 and debenture holders would have been forced to accept the conversion as more valuable than the call. On the other hand, assuming the bonds maintained the same market value ratio to the stock—116 to 47½—the bonds would have been selling above 130 at the time of the call and would have suffered a sharp decline.

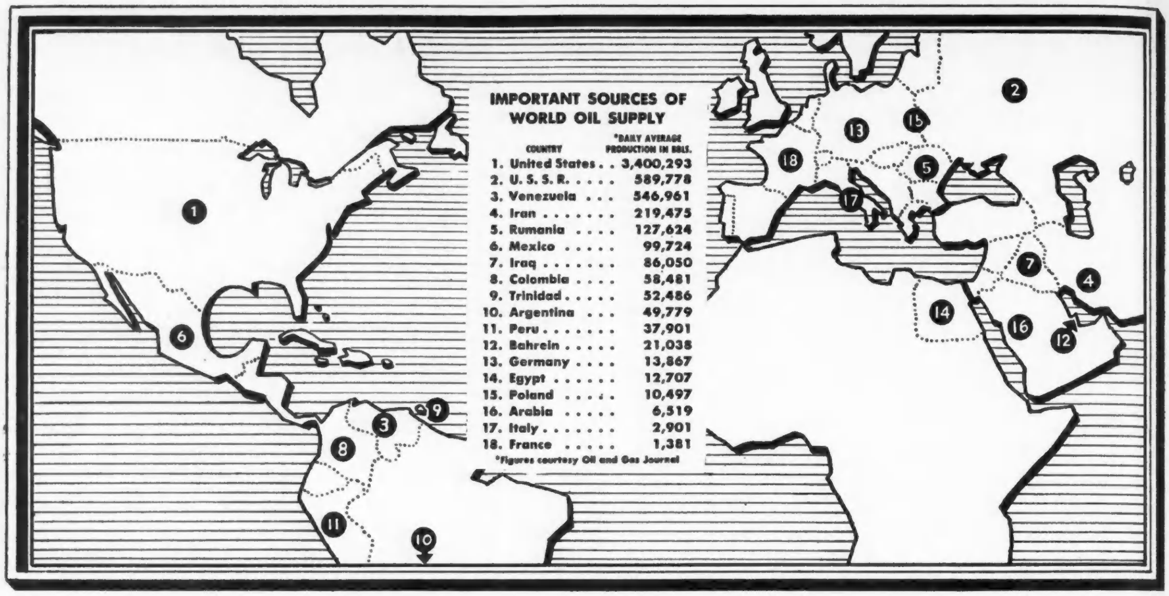
The uptrend in common stock prices over the past two months has already added substantially to the value of some of the more attractive convertible issues. As was seen in the case of the Phelps Dodge issue, convertible bonds in a rising stock market and where there is any reasonable likelihood that conversion feature will be valuable rarely sell on a par with their convertible privilege, but at an additional premium anticipating that the convertible option will enhance further in value.

For the investor to whom these various qualifications are acceptable, the present occasion would seem to warrant consideration of convertible bonds. Speculative in varying degrees, convertible bonds nevertheless offer the conservative investor a medium through which he is enabled to secure a greater measure of participation in the improving trend of business and rising stock prices without accepting fully the risks implied in the purchase of more volatile common stocks.

Accompanying this discussion are two groups of convertible bonds—one of issues identified with companies which have a war background, that is companies which might in time be expected to have their business augmented by orders for war materials and products—the other group being made up of issues identified with more stable enterprises but which nevertheless offer promising investment inducements on the strength of their convertible privilege.

Bond Prices Recover Sharply

Following the precipitous decline in bond prices upon the outbreak of war, readers of the Investment Clinic were counselled against the hasty liquidation of good bonds held for income. In less than seven weeks the wisdom of that advice has been substantially proven. At the close of the week ended October 28, the New York Herald Tribune composite average of 30 bonds was within 1.59 points of the 1939 high reached March 10, last. With the exception of second grade rail liens, all groups have shared in this recovery. Large scale liquidation of bonds early in September was prompted by the fear that the outbreak of war meant sharply higher interest rates. Interest rates may harden if the war is prolonged but in the interim, with excess bank reserves at an all time high, fears of any significant increase in money rates accompanied by a serious decline in bonds appear to be groundless. Our previous advice still holds good.



IMPORTANT SOURCES OF WORLD OIL SUPPLY

COUNTRY	*DAILY AVERAGE PRODUCTION IN BBLS.
1. United States	3,400,293
2. U. S. S. R.	589,778
3. Venezuela	546,961
4. Iran	219,475
5. Rumania	127,624
6. Mexico	99,724
7. Iraq	86,050
8. Colombia	58,481
9. Trinidad	52,486
10. Argentina	49,779
11. Peru	37,901
12. Bahrein	21,038
13. Germany	13,867
14. Egypt	12,707
15. Poland	10,497
16. Arabia	6,519
17. Italy	2,901
18. France	1,381

*Figures courtesy Oil and Gas Journal

World Strategy Turns on Oil

Various of the Largest American Petroleum Companies Have Large Interests Abroad

By H. F. TRAVERS

"WHO has oil has Empire!" declared Henri Berenger, French diplomat, in a dispatch on December 12, 1919 to his chief, Premier Clemenceau. M. Berenger was pointing out the significance of oil and continued, "Control of the ocean by heavy oils, control of the air by highly refined oils, and of the land by petrol and illuminating oils. Empire of the world through the financial power attaching to a substance more precious, more penetrating, more influential in the world than gold itself." History has acknowledged the absolute correctness of the noted diplomat's message.

Echoing the same thought stands the address of that noted British statesman Lord Curzon, who exclaimed before an assemblage of oil men celebrating the victory of the Allied Armies over the Central Powers following the last World War, "Without oil, how could they have produced the mobility of the fleet, the transport of their troops, or the manufacture of several explosives?", and he concluded saying, "Truly posterity will say that the Allies floated to victory on a wave of oil."

Once more the world faces a battle for oil and again the final result is likely to be considerably influenced by this highly inflammable liquid fuel. At the moment three major sections of the earth are of great importance in the struggle now under way, so that the grand strategy of petroleum may in a general way be said to center (1) in and around the Near East including Iran, Iraq, the Caucasus as well as Rumania; (2) Venezuela and the West Indies; and (3) the Far East in the Netherland Indies. There are other large areas in which oil deposits are located such as Mexico, Columbia located close to the Panama Canal, and, of course, the United States, but these play only a passive role at the moment in the international oil strategy of Europe. Therefore this article shall confine itself to the enumerated areas, and the international oil companies whose activities fall within this territory.

For weeks now the doughty Turkish Foreign Minister Shukru Saracoglu has held his ground before the demands of Moscow in an effort to block Herr Hitler's resumption of his "Drang nach Osten" (drive to the East). Rumania with its rich oil and large granaries stands just beyond Hungary and in the path of the colossus of the north. With Rumanian oil once in German hands a prolonged war is likely to become a reality, and whether the Nazis get it or not depends partly on Russia and perhaps finally upon Turkey. But conquest of Rumania brings Germany only a step nearer Turkey, and beyond Turkey

fies the wealth of the old Ottoman Empire, which Germany desired to such an extent in 1914 that she precipitated that war largely because of it.

The Near East

On January 14, 1935, His Majesty King Ghazi of Iraq officially opened the new pipeline of the Iraq Petroleum Co. at Kirkuk, and thereby set in motion a continuous flow of oil into the Mediterranean basin. This pipeline passes through five countries, namely Iraq, Syria, the Lebanon, Palestine and Trans-Jordan. It is 1,150 miles in length, and was constructed at a cost of $50,000,000, and is, in the words of Sir John Cadman, chairman of the company, "a striking and completely new feature in the Iraqi desert world." It is domination of this area that the present Nazi drive is ultimately aimed at, for, once in possession of this territory, Germany would sit astride not only Europe, but the entire Near East and eastern Mediterranean. This too was once the dream of the Czars of Russia, and indications point to its remaining an objective of the Bolsheviki.

At the present time the Iraq Petroleum Co. pipeline terminates at the British port of Haifa, Palestine, and the French port of Tripoli, Syria. Participants in the company include Participations & Investments Ltd., representing Mr. C. S. Gulbenkein, that exceedingly shrewd and capable Armenian often referred to as the Tallyrand of oil, whose negotiations with the former Sultan of Turkey first secured the concession. His interest is 5 per cent, while the remaining shares are divided among four groups, each holding a 23.75 per cent interest. These are the Anglo-Saxon Petroleum Co., a subsidiary of the Royal Dutch-Shell, the D'Arcy Exploration Co. (Anglo-Iranian Oil Co., Ltd.), the Compaigne Francaise des Petroles, in which the French Government has acquired a considerable interest, and the Near East Development Co. The latter is controlled jointly by the Standard Oil Co., New Jersey, and the Socony-Vacuum Oil Co. It might be noted that American participation was acquired in the days when the United States had a forward looking foreign policy in Europe.

As at present constituted the Iraq field forms a petroleum supply base for the British Navy and air force. The distance from Haifa to London is 3,329 miles, or some 790 miles nearer than Venezuela, not to mention Iran (Persia) which is some 6,500 miles from England. Thus the Iraq Petroleum Co. is the first line of Great Britain's defense on the petroleum front.

The Iraq field has also fitted in neatly with French oil policy. Since France produces less than 1,500 barrels of crude oil daily, and has no other developed petroleum sources of consequence legislation was passed some years ago which had the effect of increasing the number of refineries within France and providing for that nation's security with respect to oil. This had the effect of increasing the imports of crude oil and reducing those of refined products, thereby aiding in the establishment of a national refining industry with a daily capacity of 100,000 barrels or better.

Directly to the east of Iraq lies Iran where the Anglo-Iranian Oil Co., Ltd. has held a concession in the southern part since 1910. The original concession was obtained by an Englishman by the name of William Knox D'Arcy in 1901, who had accumulated a fortune in the gold fields of Australia, and was granted a 60-year option by the then ruling Shah. The concession gave him and his company exclusive rights to everything under the ground in 5/6ths of Iran, an area of 500,000 square miles. The five northern provinces, where oil has since been reported, were excluded from the contract. In 1909 the D'Arcy Exploration Co. was succeeded by the Anglo-Iranian Oil Co., Ltd., which in turn was financed by Lord Strathcona and a few wealthy Englishmen determined to keep the properties in British hands. In 1913 the British Government is reported to have purchased control of the company for $11,000,000, and ten years later, according to Winston Churchill, had profited to the extent of $200,000,000.

Over a long period the Russian Czars and their suc-

Petroleum Requirements of Major Warring Powers

Great Britain

Supply Source	1938 BBl.	Percent of Total
United States	16,065,000	18.5
Venezuela	3.968,000	4.5
Netherland West Indies	30,752,000	35.4
British West Indies (Trinidad)	5,946,000	6.8
Iraq	4,058,000	4.6
Iran	17,910,000	20.6
Rumania	2,947,000	3.4
Netherland East Indies	681,000	0.7
U. S. S. R.	2,283,000	2.6
Mexico	1,553,000	1.8
Peru	625,000	0.7
Total	86,788,000	

France

Supply Source	1938 BBl.	Percent of Total
Iraq	23,445,000	39.2
United States	20,876,000	34.9
Venezuela	4,746,000	7.9
Columbia	2,966,000	4.9
Peru	2,602,000	4.3
Rumania	1,872,000	3.1
Central America (Mexico)	1,040,000	1.7
Iran	830,000	1.4
U. S. S. R.	739,000	1.2
Ecuador	338,000	0.5
Netherland East Indies	220,000	0.3
Total	59,674,000	

Germany

Supply Source	1938 BBl.	Percent of Total
Netherland West Indies	10,680,000	32.6
United States	8,891,000	27.2
Rumania	3,646,000	11.1
Venezuela	1,896,000	5.8
Netherland East Indies	1,510,000	4.6
Iran	1,425,000	4.3
Peru	1,046,000	3.2
U. S. S. R.	562,000	1.7
Total	32,719,000	

Source: Oil and Gas Journal.

cessors, the Bolsheviks, looked with covetous eyes on Iran, especially the northern provinces with their natural outlet to the Caspian Sea. To the Czars Iran represented a warm water outlet to the Indian Ocean, second only to the Dardanelles. To the Bolsheviks it has represented this as well as a step toward India and oil. This despite the fact that they expropriated British, French and U. S. oil properties in Baku and have never been able to operate them efficiently since. On November 26, 1932, the Iranian Government suddenly canceled its concession to the Anglo-Iranian. Various excuses were made at the time such as the claim that the concession had been originally obtained under pressure, and that oil royalties had been calculated in a manner unfair to them. Despite the dubiousness of these claims petroleum royalties are Iran's principal source of revenue, and had dropped from 1,288,000 pounds sterling in 1930 to 307,000 in 1931.

There were, however, influences of deeper moment than mere finances. Under Soviet encouragement of national minorities a strong nationalist movement has flourished in Iran under the picturesque former cavalryman Riza Khan Pahlevi, its present Shah. This has resulted in a gradual contraction of British influence, and closer relations between Iran and the U.S.S.R. Matters were finally adjusted in 1932, however, between Iran and the Anglo-Iranian Oil Co., but the incident was significant of the direction in which the wind was blowing. The development of the Iraq Petroleum Co. has since given Britain a certain degree of independence with respect to the oil of Iran if not to its strategic position.

Courtesy of "The Lamp"

View of the important Maracaibo Lake oil field in Venezuela.

As matters now stand reported Soviet pressure in the Caucasus on Turkey threatens the stability of the entire Near Eastern set-up. Turkey, Iran, Iraq and Afghanistan are bound by treaty to consider mutual assistance should one of them be attacked by a fifth power. The utilization of a program for national minorities by the Soviet as an instrument of state policy now reveals itself as considerably more effective than the vicious and stupid racial policies of the Nazis in behalf of national aggrandizement. In fact it seems likely that the present Soviet policy with regard to minorities is likely to prove more effective than the Pan-Slavism of the Czar's ever did.

Now that the U.S.S.R. has joined Germany, to exactly what extent is as yet unknown, the Nazis undoubtedly will look to her as a source for petroleum supplies. Before the war Germany obtained only an exceedingly small quantity of oil from Russia, and it is doubtful that the Soviets will be able to augment Germany's needs by any considerable degree. During the past six years the Russian output has remained constant and not increased, despite their potentially rich fields, while their own domestic demand has grown substantially.

Germany for a considerable number of years has been making efforts to develop her synthetic gasoline industry with the hope of ultimately attaining a degree of self-sufficiency. However, between four and five tons of coal are required to obtain one ton of synthetic gasoline, and if volume production is to be successfully accomplished hundreds of thousands of additional workers would be required. Under existing circumstances, however, these are not available. Estimates place Germany's present reserves at around ten months supply. By her conquest of Poland Germany gained about 3,230 barrels of oil production daily, but due to the British blockade she has lost her Mexican imports of 7,800 barrels daily. At the same time Russia acquired a potential production of 7,575 barrels daily, but these wells, according to reports, have been rendered useless for a year at least due to dynamiting by retreating Poles. In addition Russia obtained approximately 80 per cent of the Polish refining capacity.

While Rumania has supplied on the average about 11 per cent of Germany's petroleum needs, her output has been on the decline since 1936. This is probably a result of fear of German invasion of this country, since most of her oil properties are controlled by British, French and American capital. Rumania's trade treaty with Germany, forced on her earlier this year, provides that up to 25 per cent of her exportable oil surplus must be delivered to the latter, though there are no stipulations regarding the balance.

Largely because American economic penetration is proverbially free from political objectives, the Standard Oil Co. of California during the past few years has obtained valuable concessions on Bahrein Island in the Persian Gulf. In June, 1936, Standard's producing and refining properties were merged with the marketing facilities of Texas Corp. As a result each received a 50 per cent interest in the Bahrein Island Petroleum Co., Ltd., while Texas Corp. was able to serve its markets in China, (*Please turn to page* 127)

What the Business Indexes Don't Tell

BY GEORGE W. MATHIS

ONE of the most difficult problems with which investors must contend is that of obtaining some reasonably satisfactory measure of general business activity. It is difficult because "general" business activity itself is something of a will-o'-the wisp.

For there is little that is homogeneous about business. It is not an entity but, rather, a conglomeration of a great many entities as diverse in some respects as they are intimately related in others. Hence the practical impossibility of accurately expressing its status or trend in terms of a single statistical series; hence, also, the inevitablity that any such series will frequently conceal almost as much about the true state of business as it reveals.

But despite its limitations, the business index is an indispensable market and investment aid. It is of the utmost importance, therefore, to understand the distinguishing characteristics of the several types of such series currently available and in everyday use. For though they are ordinarily lumped together under the common label of business index, they do not present the business picture from a common vantage point.

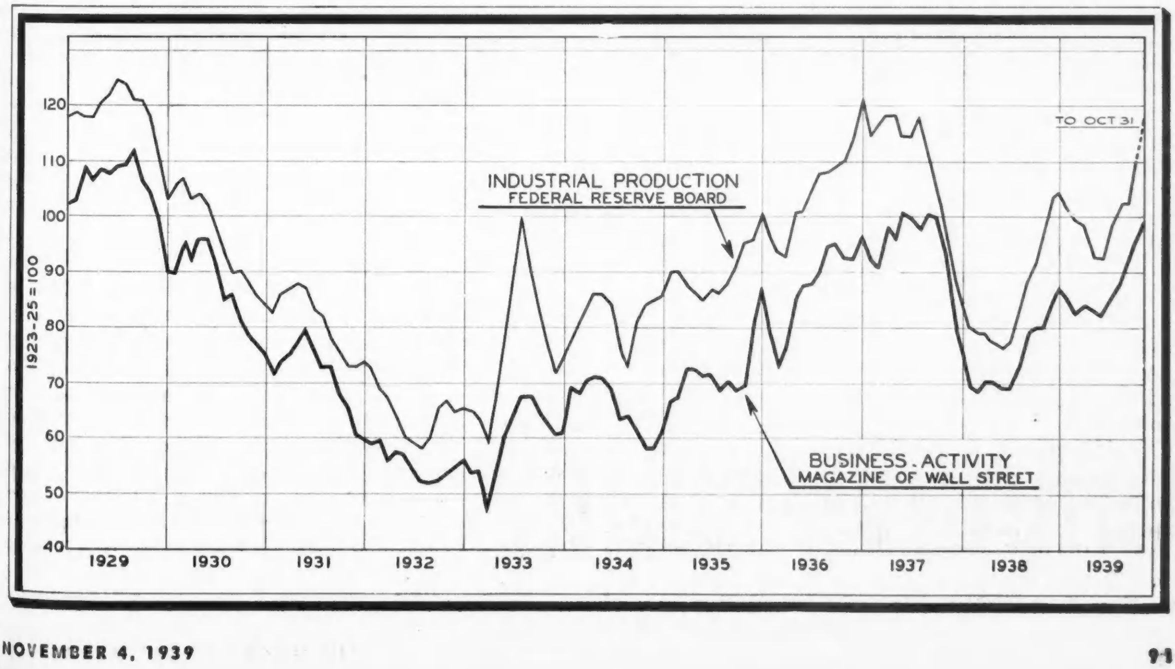
The Federal Reserve Board's index, for example, is not a business index at all, but a production index—and the distinction is not to be overlooked. For the manufacturing and mining output statistics of which this series is composed, while they are drawn from an important segment of overall business, by no means represent the whole of it. Electric power production is omitted as are also such indicators as railroad carloadings, retail sales, etc. that reflect activity in the important distribution and consumption sectors of our economy.

The Reserve Board's concentration on industry to the exclusion of distribution and trade—and, particularly, its concentration on *heavy* industry—makes for a much more volatile index than one which more nearly reflects the business situation as a whole.

In 1933 (see chart), industrial production, as measured by the FRB index, took only four months to recover from the very nadir of depression to levels approximating those of the comparatively prosperous period of early 1930. The ensuing decline was equally sharp and it was not until the end of 1935 that the mid-1933 mark was again approached. Overall business activity, however, as gauged by THE MAGAZINE OF WALL STREET's index, bettered the best 1933 levels in the forepart of 1934 and had risen considerably further by late 1935.

Again, industrial output is represented as having reached a cyclical peak in December, 1936, whereas business in general did not top out until the spring of 1937. This discrepancy may have been largely due, however, to the Board's insufficient adjustment for seasonal variation in view of the changed automobile production year.

The Federal Reserve index also differs from most others in that it is not adjusted (*Please turn to page* 127)



Hollywood again needs to pull in its belt—but does it know how?

Movies Hit on Several Fronts

BY C. F. MORGAN

SHOULD one—by some herculean effort—succeed in getting a motion picture executive to read Professor J. A. Schumpeter's "Business Cycles," nothing in the world could prevent that hard-boiled party blushing a deep and fiery red, for the work seems to have been especially written for the movie industry. (No doubt other critics of other industries are just as convinced that it must have been written for the railroads, textiles and what not.)

The good professor leaps in at once and seizes upon the movie throat with the statement that success or failure depends not merely on the degree of efficiency with which the particular firm or industry is managed, but on a set of conditions over which no control may be had. While there is no doubt that the professor refers to business cycles, there are many business men who, having watched the recurrence of such cycles, do try to control the effects of them by wise provisions, one of which in the past has been the setting up of certain reserves.

At present the movie business is leaning rather heavily upon its patron saint, the great god luck, for it can hardly be urged that the movie makers in the past have either shown remarkable business ability or any marked degree of common sense. But it is a veritable fact that ever since the first flickering picture danced across a makeshift screen, they have been literally plastered with luck. For years anything that pictured motion and had a semblance of a story could find patronage, but conditions are changing and those conditions are wrinkling the movie magnate's brows.

Not infrequently the movie prosperity has run counter to the nation's. When times were bad in general industry the pictures still made money, and in good times they made more, for in adversity humanity sorely needed the anodyne the motion picture provided. But today things are different, for a new set of conditions, or rather a combination of conditions, has arrived, and the czars of celluloidia don't quite know what to do about it all.

Great Britain normally accounts for about 15% of our total movie film rentals, Latin-America for 12% and all foreign markets for 35%. Shrinkage of the British market has been less than was initially feared but is adversely affecting earnings of American producers. Paramount, with large domestic theater revenues, is least affected. Smaller producers like Columbia and Universal are hardest hit. In between are Loew's, Warner Brothers and Twentieth Century-Fox. There will be some offset to these losses in reduced competition from British, French and German films.

To begin with, the grip of unionized labor is on the movie business and it seems unlikely that it will be loosened. To all intents and purposes Los Angeles is the last stand of the open shop, and in the midst of the city stands the movie business, completely surrendered to the unions. When the war broke the picture studios began a campaign of retrenchment. Personnel was reduced, salaries were cut, budgets suffered slashes, but—hostages had been given to fortune some years before and the unions' basic wage agreement came up for adjustment around the first weeks of September. When the dust cleared away the International Alliance of Theatrical Stage Employees, the IATSE, had a 10 per cent increase in wages affecting some 12,000 men, and with more employees under the same aegis clamoring for increases too. In announcing this increase, Mr. E. J. Mannix, vice-president of Metro-Goldwyn-Mayer, chairman of the negotiating committee for the producers, tersely stated that the employers had surrendered because they had a gun in their back, or words to that effect. Today the studios may be pardoned if they recall the tale of the Arab's camel who humbly asked permission to put his head in his master's tent while a sandstorm raged, and bit by bit edged further in until he occupied the tent and the owner was outside.

But the movies have tightened their belts as best they can. They have cut wages and ousted employees who have no organized protection, foreshadowing further unionization among the so-called white-collar employees.

When Lord Leverhulme once remarked that industry could pay labor any wage it had to, his statement may have been applicable to British soap, but there are new conditions forcing themselves upon the picture business that Lord Leverhulme may not have taken into consideration. Thus—

1. Motion pictures came into prosperity and popularity

because they offered cheap and attractive entertainment for the masses in competition with the stage. Two hours entertainment for anything from 10 cents up almost put the speaking stage out of business. But notwithstanding recent sound and color, motion pictures are no longer a novelty and must compete on more or less even terms with a growing interest in sports. Night baseball, football, tennis and so on have proved tremendously effective in luring the fickle evening quarter from the movie theatre to the in or outdoor nightly lighted stadium.

2. The 18,000 exhibitors throughout the United States complain that the producing studios don't give them the product they can sell to the public. True, this is an old quarrel, but it is growing more acute each day. A few days prior to this writing the *Hollywood Reporter,* a trade paper, published an exhibitor's statement that big feature pictures were too hard to sell because usually they demanded an increased admission, or were illustrative of unattractive subjects. The bald statement was made that the despised "B" pictures were the backbone of the exhibitor's business and from them he made money that he lost in showing the features.

3. Finances are getting tighter. Witness the long drawn out battle to get the RKO group out of bankruptcy. Up to this point almost every solution offered has been unacceptable to one side or the other. This may be sheer obstinacy or it may be reluctance to jeopardize investment, for new money is sorely needed. For weeks a rumor has been current in Hollywood that new financing has been denied a major company unless certain high executives were eliminated from control. And it is indubitably a fact that the picture business has never set up reserves. If the Boojum Studio wants three new sound stages or some additional acreage or equipment, it never has any money for this purpose. Recourse is had to outright borrowing or new financing, this placing an additional burden on future profits.

4. Lack of judgment in selecting and producing picture subjects is another charge. About a year ago one of the big companies spent over three million dollars upon a feature picture. It was acclaimed as a magnificent achievement—by the critics—but the public seems to have been distressingly shy in patronizing it. Just the other day much to-do was made of a new great two million dollar feature whose premiere was to be held in Washington. Somebody's judgment slipped there, according to reports, for the Senate and the House took instant umbrage at the implications in the picture, and one wonders what the Congress will do about the Neely anti-block-booking bill at the first opportunity. Besides which there is in the opinion of wise distributors little foreign market for the picture, leaving war conditions out.

Courtesy Motion Picture Herald

The Metro, a first run house in Santiago, Chile. U. S. companies are turning to the further development of the South American movie market as war in Europe cuts deeply into revenues derived from export pictures.

Census of Foreign Movie Theaters

Country	Theatres Wired For Sound	Total Theatres
Russia	8,000	30,000
Germany	8,260	8,500
England	5,300	5,300
France	3,750	4,600
Italy	3,800	4,049
Spain	1,600	3,560
Sweden	1,907	1,907
Belgium	950	1,100
Other Europe	3,833	4,013
Brazil	1,250	1,450
Argentine	1,021	1,021
Mexico	437	823
Cuba	375	375
Other Latin America	1,388	1,458
Japan	1,574	1,749
Australia	1,371	1,371
India	1,025	1,025
New Zealand	721	721
Other Far East	1,105	1,435
Africa	640	645
Near East	216	236

Economies can be effected. Movie belts can be tightened if there is clear understanding of the situation, but there may need to be lessons learned through experience. The plain fact is that motion pictures cost too much to produce. The wastage is too great; the business judgment is too frequently less than the artistic judgment. The industry as a whole has never learned business principles; it has merely learned progressive expenditures.

Should a manufacturer of anything from whisk brooms to automobiles decide to place a new product on the market it is almost certain that he would make a careful survey of that market first. He would discover how many people might want his product and how much they could be expected to pay for it. But the movie maker does not work that way today. He is a rule of thumb producer. As an example, take the two million dollar picture of which we have had a surfeit in the last year or two. What must it draw in patronage to justify its cost?

The picture is turned over to a (*Please turn to page 128*)

As the Trader Sees Today's Market

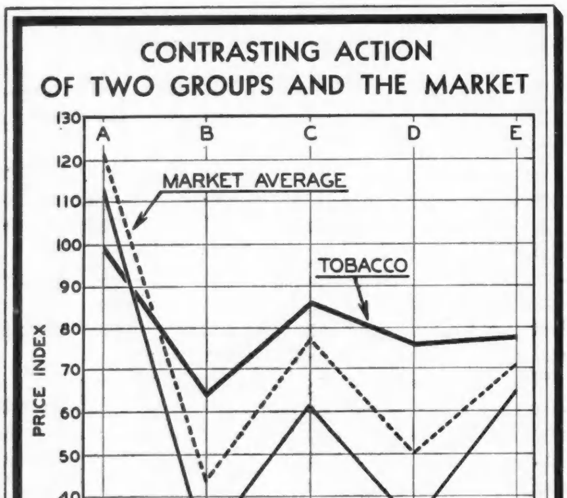
Beating the Averages Through Selection

BY FREDERICK K. DODGE

THE day to day fluctuations in the stock market tend to obscure certain basic facts that are important in successful trading. From a succession of small psychological jolts, favorable and unfavorable, one's mind becomes dulled to the bigger things that are going on. It takes a conscious effort, in fact, to stop and look over the whole situation so that hazy impressions can be clarified and a fresh grasp on realities can be secured.

Take the question of choosing issues which will outmove the averages. We know in a general way that the wide swingers of former moves will usually repeat in the future, that the stock which has just come down the fastest will probably exhibit the same relative speed on the recovery, or vice versa. If we can trade on the right side of the market in such a stock, the profits will be much larger than in an issue of perhaps higher quality but less volatility.

Deliberately searching for the situations which harbor the most risk—as these fast movers normally do—seems a peculiar attitude even for a speculator, but it is a logical one. There will be many times when the trader will prefer to avoid the most volatile issues, yet he must always recognize the distinction between the various stocks and groups. Otherwise either trading or investing is based on a background incomplete in one of its most significant details.



The accompanying table analyzes the long range action of THE MAGAZINE OF WALL STREET's broad market index of 316 common stocks, and of sixteen individual groups within the index. In the first swing shown, from the top in 1937 to the bottom a year later, the combined index fell from 122.0 to 44.2, a drop of 64 per cent. The decline in the rails in the same swing was 78 per cent, or 22 per cent more than the broad average, so that the volatility index for the railroad group is set at 1.22 on the move. In other words, the change in the rail average was 1.22 times as wide as in the broad average. The tobaccos fell only 36 per cent, or 0.55 times as much as the combined index. Leaders in each of the phases shown have varied, but general habits are fairly consistent. Volatility on the advancing phases is always exaggerated in relation to that on the declines, since percentage calculations are from a low rather than a high base.

Average volatility on the four big moves is shown in what is perhaps the most significant column in the table. It really sums up past behavior in the expectation that unless conditions change very definitely in their bearing on a particular group the future action will be similar. It shows that the railroad equipment stocks have offered opportunities for profits 55 per cent wider than the market as a whole. Agricultural implements, surprisingly enough, have failed to exhibit the same degree of volatility as the broad average.

Practical Trading Effect

The approach to this problem is necessarily rather theoretical, with indexes and percentages and so on, but the effect on trading results can be very practical. Suppose, for example, that a man could have correctly timed each of the four major swings since the top in 1937. Selling the averages at A and rebuying at B would have shown a profit of 64 per cent. The trade from B to C would have added 76 per cent more to the profits. The sum of $100 would have grown to $552 if compounded

in this way on the four moves. The same amount concentrated in the tobaccos would have grown to only $208. In the rail equipments $100 would have mounted up to a figure of $1,067, twice as large as the profits on the general market and five times as large as those on the tobaccos.

This sort of reasoning pays dividends if it can be combined with a sense of timing. The mistakes to be made in each case are in proportion with the potential profits, and it is obvious that the most attractive group at any given time is not necessarily the group that has just made the widest moves. There are many occasions when a characteristically sluggish group gets so far behind the market, partly because of its uninteresting record, that a spectacular advance can be staged. Furthermore, it is always wise to revise opinions on any of these industries quite frequently, since the past record can lose most of its meaning when some basic change comes along.

A Dozen Wide Movers

Among the sixteen groups examined a dozen have shown wider movement than the broad average. Rail equipments rank first in volatility, railroads second, coppers third, then steel, automobile accessories and automobiles. Chemicals constitute a good example of the issues suitable for investment but not as a group for trading except in special circumstances. Representing comparatively high quality issues, the chemical group may be an excellent one to hold in a declining market, but the trader sets a different objective for himself. He wants, if possible, to own no stocks when the general market is falling. He can not succeed more than a certain percentage of the time, but when [illegible] the trend correctly he hopes to be committ[illegible] which will outperform the averages.

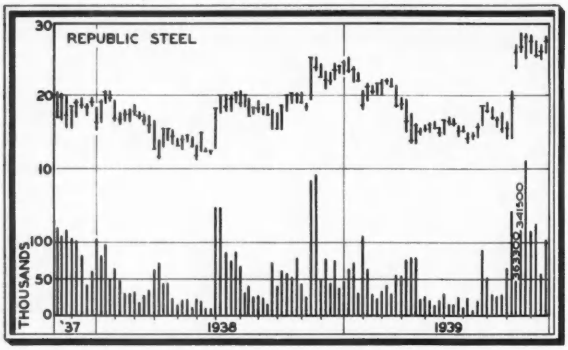
The September advance, however, gave an [illegible]ing of the dangers of holding tight to any assumptions based entirely on past performances. The chemicals had dropped only 0.86 as far as the average from 1937 to 1938, gained only 0.78 as much on the following move, and dropped only 0.86 as much in the decline to this spring. Yet in less than a month to September 23 they gained 41 per cent, which was an advance 41 per cent larger than that of the general market. The tire group had swung far more widely than the broad average, but in the September rise scored a gain barely more than half as large as the advance in the market as a whole. Automobiles and automobile accessories also failed to live up to their past records in the September war market, as did the department stores, the food brands and also the public utilities.

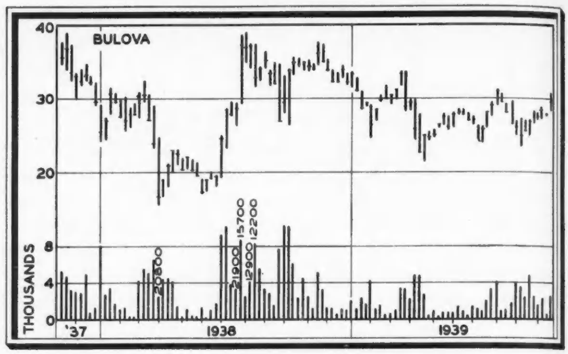
The selectivity of the September rise is illustrated by the wide variations in the volatility indexes. It has been rare in the past to see certain groups moving twice as widely as the averages, a feat accomplished in the September move by the steels, rails and rail equipment. On the other hand, there were three groups which barely equaled half the move in the broad average, one which stood almost still, and one which declined. Pity the trader who bought stocks at exactly the right moment in late August, then saw them refuse to join the advance! As a matter of fact, with the record available to all, there is no excuse for more than isolated and infrequent failures to pick the type of stocks that make it possible to "beat the averages."

Group Action in Major Swings

% Decline from 1937 High to 1938 Low (A to B)	Volatility Index	% Gain from 1938 Low to 1938 High (B to C)	Volatility Index	% Decline from 1938 High to 1939 Low (C to D)	Volatility Index	% Gain from 1939 Low to Sept. '39 High (D to E)	Volatility Index		Average Volatility Index (4 moves)	% Gain from Aug. 26 to Sept. 23, 1939	Volatility Index
64%	1.00	76%	1.00	35%	1.00	42%	1.00	Combined Average (316 Common Stocks)	1.00	29%	1.00
65	1.01	51	.67	39	1.11	47	1.12	Agricultural Implements	.98	46	1.59
71	1.11	114	1.50	40	1.14	59	1.40	Automobile Accessories	1.29	31	1.07
77	1.20	111	1.46	45	1.29	44	1.05	Automobiles	1.25	30	1.03
58	.91	143	1.89	30	.86	37	.88	Aviation	1.13	31	1.07
55	.86	59	.78	30	.86	51	1.21	Chemicals	.93	41	1.41
71	1.11	96	1.26	45	1.29	32	.76	Construction	1.10	29	1.00
72	1.13	116	1.53	45	1.29	67	1.60	Copper & Brass	1.39	41	1.41
71	1.11	125	1.64	40	1.14	33	.78	Department Stores	1.17	17	.59
54	.84	143	1.89	15	.43	45	1.07	Food Brands	1.06	11	.38
63	.99	78	1.02	40	1.14	50	1.19	Machinery	1.08	33	1.13
66	1.03	69	.91	32	.91	29	.70	Public Utilities	.89	2	.07
75	1.17	118	1.55	45	1.29	93	2.21	Railroad Equipment	1.55	70	2.41
78	1.22	75	.99	42	1.20	90	2.14	Railroads	1.39	65	2.24
67	1.05	93	1.22	43	1.23	75	1.79	Steel & Iron	1.32	59	2.04
66	1.03	106	1.39	37	1.06	37	.88	Tires & Rubber	1.09	15	.52
36	.55	35	.46	11	.31	2	.05	Tobacco	.34	decline	minus

8 Stocks Favored by





REPUBLIC STEEL CORP.

BUSINESS: Third largest American steel producer, first in field of alloy and special steels. Annual ingot capacity, 6,500,000 tons; finished capacity divided roughly: sheets, strip and tin plate—44 per cent, bars —39 per cent, skelp—7 per cent, balance miscellaneous. Adequate ore and coal reserves. Plant areas include Birmingham, Buffalo, Cleveland, and Youngstown. Emphasis in recent years has been on lighter steels and Republic has kept equipment modern.

FINANCIAL POSITION: Only three years of profit on common stock to its credit. Net working capital adequate, however, at $78 millions at end of 1938, cash $16 millions, inventories $58 millions. Funded debt —$89 millions including $14,787,000 in 5½s due 1954, each $38.04 of these bonds convertible into one share common. Stock outstanding: 282,304 shares $6 cumulative prior preference ($100 par), redeemable at 110, convertible into two shares of common; 119,597 shares $6 cum. pfd. ($100 par), redeemable at 110, convertible into 2/3 common share until 1942, thereafter into 4/7 share; 5,593,911 common (no par). No bank loans at end of 1938, nearest bond maturity $2¼ millions in 1941. Accumulations on prior preference $4.50 per share, on preferred, $24 per share; no dividends on common since 1930. Recently reduced funded debt and preference stock accumulations.

OUTLOOK: Customer industries, notably automobiles, in midst of strong pickup. High rate of operations important to profits because of heavy overhead and fixed charges. Fourth quarter net should be best of year, possibly raising 1940 earnings on common above those for 1937. Maintenance of active steel demand key to longer future, with prices also important.

MARKET ACTION:

	Republic Steel	Market Average	Republic's moves in relation to average
'37 high to '38 low....	76% decline	64% decline	19% wider
'38 low to '38 high....	128% advance	76% advance	68% wider
'38 high to '39 low....	50% decline	34% decline	47% wider
'39 low to '39 high....	121% advance	44% advance	175% wider

Average volatility on four moves 77% greater than M. W. S. index of 316 common stocks.

COMMENT: Common and to lesser extent preferred issues are leverage stocks in a highly volatile industry. Wide swings offer unusual appreciation opportunities plus accompanying speculative risks.

Nine-Year Record

	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range (calendar years)
1930 (9 mos.)..	NF	d$4.9	d$3.85	....	79½-10½
1931..........	NF	d9.0	d6.43	....	25¾- 4⅛
1932..........	$47.6	d11.3	d7.58	....	13⅞- 1⅞
1933..........	79.8	d4.0	d3.83	....	23 - 4
1934..........	96.8	d3.5	d3.43	....	25¾-10½
1935..........	136.2	4.5	.49	....	20¾- 9
1936..........	218.3	9.6	1.74	....	29⅞-16⅞
1937..........	250.4	9.0	1.19	....	47¼-12¼
1938..........	140.9	d8.0	d1.86	....	25⅝-11¼
3 mos. ending March 31, 1939	NF	.5	d.01	....	25⅜-15⅛
June 30, 1939.	NF	.6	d.01	....	17⅝-12⅞
Sept. 30, 1939.	NF	2.8	.40	....	28½-13½

NF—Not available. d__Deficit.

Thumbnail Stock Appraisal

BULOVA WATCH CO.

BUSINESS: A leader in the field of high grade watches, accounting for about 40 per cent of domestic sales in this line. Also produces cheaper watches through a subsidiary. Plants in Providence, R. I., Sag Harbor and Woodside, Long Island, and Waltham, Mass. Some parts manufactured in Switzerland.

FINANCIAL POSITION: Dividends have been conservative in relation to earnings, and net working capital at $7.2 million at the end of March this year was comfortable. Cash amounted to $1.5 millions, bank loans to $400,000, mortgages payable to $38,000. There is no funded debt and stock outstanding consists only of 324,881 shares of no par common. Dividends now on regular 50 cent quarterly basis, with extras possible if earnings justify.

OUTLOOK: Typically a supplier of luxury demands, Bulova has much to gain from larger consumer spending and broadened confidence. Losses during the depression were not immoderate in view of the type of business, and the comeback was impressive. Earnings since the end of the fiscal year last March have been showing wide advances over a year earlier, but the company's big season lies just ahead of it, and the current few months will determine whether or not any approach to former peaks can be made in the near future. President has stated that business for fiscal year ending next March should show gains of 25 to 30 per cent over 1939 fiscal year. Exports to South America showing progress.

MARKET ACTION:

	Bulova Watch	Market Average	Bulova's moves in relation to average
'37 high to '38 low....	76% decline	64% decline	19% wider
'38 low to '38 high....	152% advance	76% advance	100% wider
'38 high to '39 low....	45% decline	34% decline	32% wider
'39 low to '39 high....	59% advance	44% advance	34% wider

Average volatility on four moves 46% greater than M. W. S. index of 316 common stocks.

COMMENT: Characterized by a low price-earnings ratio, Bulova Watch is a substantial but sporadic income producer as well as a wide mover in comparison with the general run of stocks. The specialized nature of its business makes large trends difficult to predict far in advance, but conditions have been growing steadily more favorable for a number of months.

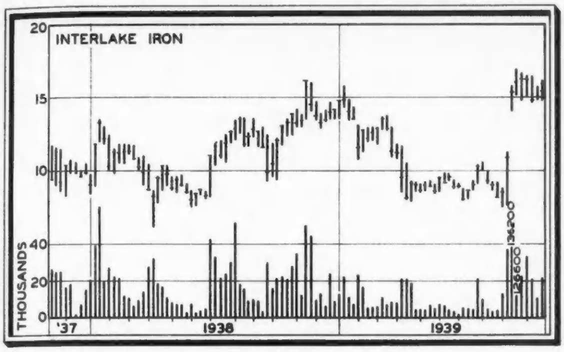
Ten-Year Record

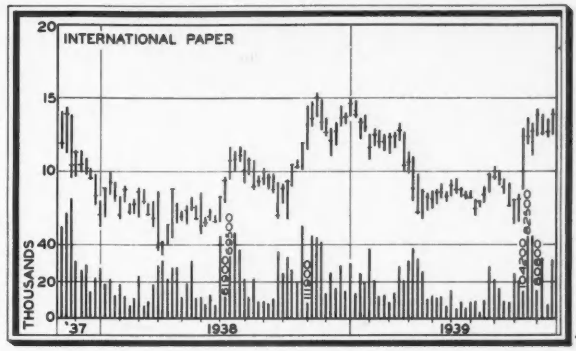
Yrs. Ending Mar. 31st	Gross Profit (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range (calendar years)
1930..........	$4.4	$1.6	$5.04	$3.00	43 - 8½
1931..........	3.7	.8	2.24	.95	15¾- 3¼
1932..........	2.2	d.2	d1.34	....	3½- 1⅛
1933..........	.9	d1.1	d4.54	....	5 - ⅞
1934..........	.5	d .3	d1.77	....	6½- 2⅞
1935..........	2.1	.4	.77	....	14¾- 3¾
1936..........	3.3	1.3	4.15	....	59⅝-11½
1937..........	5.0	2.6	8.14	4.50	65¼-24¼
1938..........	7.0	2.5	7.72	3.00	39 -15½
1939..........	4.6	1.4	4.31	2.00	34¼-21½
3 mos. ending June 30, 1939.	1.1	.3	.81	....	28½-21½
Sept. 30, 1939.	....	....	....	....	31½-23½

d—Deficit.

Thumbnail Stock Appraisal

Sharp Earnings Rise





INTERLAKE IRON CORP.

BUSINESS: Company is one of the largest producers of merchant pig iron and commercial coke and its by-products. Properties are located strategically in relation to principal markets. Plants are situated in Chicago, Toledo, Duluth, and Erie. They consist of six blast furnaces, 4 by-product coke plants having modern recovery apparatus, and coal and ore docks and storage facilities. Plants have an annual capacity of 1,215,000 tons of pig iron, 1,930,000 tons of coke, 21,490,000 cubic feet of gas, 67,510,000 pounds of ammonium sulphate, 22,656,000 gallons of coal tar, and 6,590,000 gallons of light oil. Iron and coal deposits owned by the company are sufficient for years to come, but all limestone requirements must be met by open market purchases.

FINANCIAL POSITION: The capital structure of the company is heavy, consisting of $9,450,000 of 4 per cent convertible sinking fund debentures due in 1947, and 2,000,000 shares of no par common stock. The bonds are convertible at successively higher prices up to $33 per share in 1947, and the sinking fund must retire $550,000 of them every year. Fixed charges have been reduced steadily since the end of 1932, when they totaled $793,000 annually, and now equal about $370,000 per year. Current position at the end of last year was strong with assets at $13,891,659, cash $890,949, against current liabilities of $1,506,410.

OUTLOOK: With production of heavy goods currently going to new highs, the company has announced that its plants are booked at capacity for the next three months, and expansion is being considered. A deficit of $.40 per share was reported for the first half, but indications are that the company will finish the year in the black by a good margin.

MARKET ACTION:

	Interlake	Market Average	Interlake's moves in relation to avge.
'37 high to '37 low....	79% decline	64% decline	23% wider
'37 low to '38 high....	169% advance	76% advance	122% wider
'38 high to '39 low....	53% decline	34% decline	56% wider
'39 low to '39 high....	125% advance	44% advance	184% wider

Average volatility on four moves 96% greater than M. W. S. index of 316 common stocks.

COMMENT: Company is heavily capitalized and operates in a feast or famine industry. It is, therefore, to be regarded purely as a speculation on a rate of steel operations above the average of the last few years.

Nine-Year Record

	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range (calendar years)
1930	$22.6	$2.1	$1.03	$1.00	28⅞-11¼
1931	13.4	d1.4	d .68	.15	15 - 2⅞
1932	8.9	d2.2	d1.08	....	7¼- 1⅝
1933	11.1	d .8	d .41	....	12 - 2⅛
1934	11.9	d .7	d .34	....	11¼- 4
1935	15.5	d .4	d .22	....	13⅜- 4¼
1936	19.3	.6	.29	....	18¼- 9⅝
1937	25.5	2.4	1.20	.65	28½- 6
1938	11.4	d1.0	d .51	....	16⅛- 6⅞
3 mos. ending March, 1939...	3.6	d .4	d .18	....	15¾- 8½
June, 1939....	3.3	d .4	d .22	....	10½- 7¾
Sept., 1939....	3.7	d .3	d .15	....	16⅞- 7½

d—Deficit.

Thumbnail Stock Appraisal

INTERNATIONAL PAPER AND POWER CO.

BUSINESS: This company is largest producer of paper in the world with an annual capacity of 2,400,000 tons. Newsprint is the largest item from a tonnage standpoint. However, output of kraft paper products is considerable, and all types of paper are produced. Raw material supplies are substantial since large areas of timber land are owned in Canada and in the southern part of the United States, thereby giving company ample supplies of pulp.

FINANCIAL POSITION: In 1937 a recapitalization plan took effect which led to the present set-up of 925,935 shares of 5 per cent preferred, convertible into common 2½ for 1; 1,823,270 shares of common and 1,347,749 stock purchase warrants to purchase common at $25 per share until May 15, 1942. Total current assets of $47,765,710 are 3.3 times current liabilities. Early in 1939 plan was effected for liquidation by a holding trust of company's utility interests consisting principally of shares in the International Hydro-Electric system.

OUTLOOK: The effect of the current general business rise on International Paper's fortunes is extremely helpful; that of the war is mixed. While the interference with importations of pulp has been important in firming prices, the situation of some Canadian subsidiaries is weakened by higher taxes and the depreciation in the Canadian dollar. Principally because inventories on hand are relatively cheap, the company has announced that the $50 a ton price for newsprint will be unchanged in the first quarter of 1940. Implications point, however, to a change thereafter if present factors continue to make for higher paper and pulp prices. Though deficits on the common have been frequent since the downturn in 1937, there is every indication that the pay point is being rapidly passed.

MARKET ACTION:

	International Paper	Market Average	Int'l Paper's moves in relation to avge.
'38 low to '38 high....	256% advance	76% advance	237% wider
'38 high to '39 low....	58% decline	34% decline	71% wider
'39 low to '39 high....	131% advance	44% advance	198% wider

Average volatility on three moves 169% greater than M. W. S. index of 316 common stocks. Move from 1937 high to 1938 low not included because of recapitalization in 1937; average therefore not strictly comparable to other issues.

COMMENT: Both common and preferred are interesting speculations on the trend of the paper industry, but with the relatively new and unassessable factor of war now important.

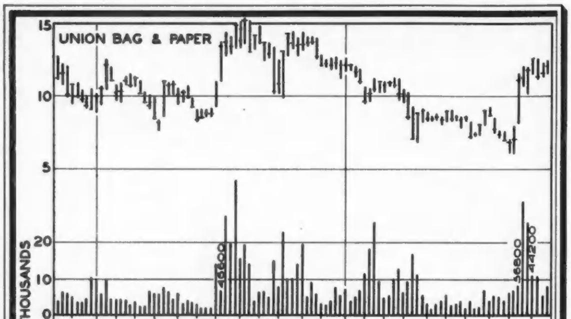
Five-Year Record

	Net Sales (millions)	Operating Income (millions)	Net Income (millions)	Net Per Share	Price Range
1934	$86.5	$8.5	d$3.4	*	*
1935	95.4	9.1	d3.3	*	*
1936	113.2	16.6	5.0	*	*
1937	123.5	21.2	9.1	$2.47	19¼- 6¼
1938	98.2	9.2	.1	d2.47	15⅛- 4¼
3 mos. ending March 31, 1938	22.6	2.2	d .1	d .70	9⅞- 4¼
June 30, 1938..	22.6	1.8	d .6	d .95	9⅝- 4⅝
Sept. 30, 1938.	25.0	2.3	....	d .63	11⅝- 6½
Dec. 31, 1938.	28.0	2.9	.8	d .19	15⅛- 9
March 31, 1939	26.2	2.1	....	d .63	14¾- 8
June 30, 1939..	25.9	2.2	.1	d .59	9⅝- 6¾

d—Deficit. *—Prior to recapitalization.

Thumbnail Stock Appraisal

8 Stocks Favored by



UNION BAG & PAPER CORP.

BUSINESS: Largest maker of paper bags in the world, also a substantial producer of wrapping paper and liner board. Plants located in Chicago, Los Angeles, New York state (4) and Savannah. Savannah plant has been added to facilities within last few years and produces bulk of paper and pulp used by itself and other company factories. Although owning or leasing large acreage in the South for timber purposes, this supply is looked upon as a reserve for the future, present requirements being bought as needed.

FINANCIAL POSITION: Expenditure over last few years of $10½ to $11 millions on the Savannah plant has been restrictive in its effect on cash position. Loans of $5,010,282 mature serially from 1940 to 1951. Capital stock consists of 1,262,729 shares of no par common. Dividend policy has been influenced by need for cash in expansion program, but some payments were made in each year from 1934 up to last year; none so far in 1939. Net working capital—$3,073,269.

OUTLOOK: Consumption of products is exceptionally steady, but prices have fluctuated widely in past. Profit margins depend directly on prices, prices to a great extent on supply conditions and psychological factors. Considerable new capacity has been added by the industry in recent years, creating the threat of overproduction and attendant price cutting under unfavorable circumstances. Current situation is strengthened by blocking of foreign pulp supplies. Union Bag has improved its integration through substituting its own production for formerly purchased paper and pulp, has reduced its costs, and turned the corner in recent earnings reports. Estimates place third quarter profits about at level equal to all of first 6 months; final quarter earnings should also gain.

MARKET ACTION:

	Union Bag	Market Average	Union Bag's moves in relation to avge.
'37 high to '38 low....	66% decline	64% decline	3% wider
'38 low to '38 high....	100% advance	76% advance	31% wider
'38 high to '39 low....	61% decline	34% decline	80% wider
'39 low to '39 high....	112% advance	44% advance	154% wider

Average volatility on four moves 67% greater than M. W. S. index of 316 common stocks. (Union Bag adjusted for 4 for 1 split in 1937.)

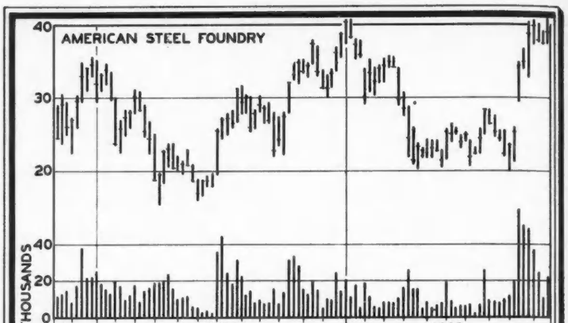
COMMENT: Cyclical qualities as a speculation on outlook for general industry as well as paper and pulp price levels are apparent.

Ten-Year Record

	Net Sales (millions)	Net Income (millions)	*Net Per Share	*Dividends (calendar years)	*Price Range (calendar years)
1929..........	$9.8	d$.7	d$1.28	....	10¾- 1¾
1930..........	....	d.2	d .26	....	4¾- 2⅛
1931..........	7.3	.1	.19	....	3½- 1¼
1932..........	6.4	d.3	d .44	....	2⅞- 1⅜
1933..........	8.3	.4	.69	....	15 - 1⅜
1934..........	9.3	.7	1.17	$1.00	15¼- 9⅞
1935..........	9.5	.2	.28	.62½	12⅝- 7¼
1936..........	11.8	.4	.37	.50	17¼- 9⅝
1937..........	15.7	1.4	1.32	.50	22¾- 8⅞
1938..........	16.5	.9	.86	.12½	15¼- 7⅝
3 mos. ending March 31, 1939	3.8	.2	.12	....	12⅛- 8⅜
June 30, 1939..	3.7	.1	.06	....	9¼- 6¾

*—Adjusted for 4 for 1 split in 1937. d—Deficit.

Thumbnail Stock Appraisal



AMERICAN STEEL FOUNDRIES

BUSINESS: Principal activity is manufacture of steel castings for railway cars and locomotives as well as open hearth casting for machinery, steamships and other purposes. Plants, totaling nine in number, are located in Pennsylvania-Ohio and Illinois-Indiana areas where majority of railway equipment of the nation is produced. Products include side-frames, bolsters, couplers, hopper car doors as well as various castings. Most important subsidiary unit is Griffin Wheel Co., large maker of car wheels.

FINANCIAL POSITION: In 1937 arrears amounting to $22 per share on the 7 per cent preferred were paid, and this issue was retired, thereby leaving the capitalization consisting solely of 1,187,496 shares of common stock. As of December 31, 1938, current assets of $12,401,999 were 10 times total current liabilities. In March, 1939, a meeting of stockholders approved a plan calling for a reduction in the stated value of capital stock from $42,294,320 to $24,202,060. With $18,092,260 capital surplus thus created some $10,777,790 is to be used for writing down patents and good will in the balance sheet of parent company to $1, and $2,772,403 to apply as a reserve against good will included as an investment in the common stock of Griffin Wheel.

OUTLOOK: The considerable increase in carloadings witnessed during the past six months has accentuated railroad requirements for additional cars in addition to necessitating parts for repairs. As a general rule earnings can be said to be correlated with carloadings.

MARKET ACTION:

	American Steel Foundries	Market Average	American Steel Foundries' moves in relation to avge'
'37 high to '38 low....	79% decline	64% decline	23% wider
'38 low to '38 high....	161% advance	76% advance	112% wider
'38 high to '39 low....	50% decline	34% decline	47% wider
'39 low to '39 high....	102% advance	44% advance	132% wider

Average volatility on four moves 78% greater than M. W. S. index of 316 common stocks.

COMMENT: During the last ten years the fluctuations of rail equipment shares have been among the largest percentagewise and this is also true of this company. Marketability of these shares is less than average, since spreads between bid and asked prices are at times considerable, thereby making for an erratic market.

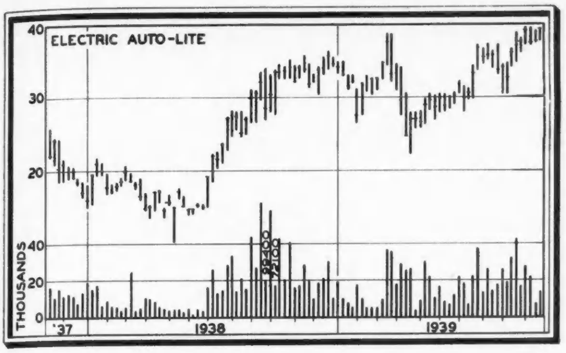
Nine-Year Record

Year Ending Approx. Feb. 25th	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends (calendar years)	Price Range (calendar years)
1930..........	not reported	$2.8	$2.37	$3.00	52¼-23½
1931..........	....	d .7	d1.24	1.25	31¼- 5
1932..........	....	d1.5	d1.99	....	15⅛- 3
1933..........	....	d1.4	d1.85	....	27 - 4⅝
1934..........	$11.6	.2	d .16	....	26½-10½
1935..........	11.2	.1	d .28	....	25¼-12
1936..........	23.0	2.9	2.65	1.00	64 -20½
1937..........	35.9	3.6	3.05	2.00	73¼-22½
1938..........	12.2	d1.7	d1.47	.25	40¾-15⅝
3 mos. ending March 31, 1939	3.8	d .1	d .09	....	....
June 30, 1939.	4.3	.2	.18	....	....
Sept. 30, 1939.	....	.7	.06	....	....

d—Deficit.

Thumbnail Stock Appraisal

Sharp Earnings Rise (cont'd)



ELECTRIC AUTO-LITE

BUSINESS: Company is one of the largest manufacturers of parts and equipment used in the automotive industry. Over 400 items are produced, among them lighting, starting, and ignition equipment, storage batteries, spark plugs, instruments, and castings. Approximately 41 per cent of total revenue is derived from the ignition division, and 18 per cent from storage battery production. Company has 17 plants located in the Mid-Western automobile centers, and operates over 30,000 service stations throughout the United States and Canada. The company supplies practically all of Chrysler's needs, and a good portion of Packard's, Hudson's, Nash's, Studebaker's, and Ford's as well.

FINANCIAL POSITION: Company has $9,650,000 in 4 per cent convertible sinking fund debentures due in 1952 ahead of its 1,197,253 shares of $5 par common stock. Bonds are convertible at $60 until 1941 and at increased prices up to $90 in 1947. Profits were reported right through the depression, though net income ranged from $10,514,369 in 1929 to $684,372 in 1933 and stood at $1,836,150 last year. Position is strong, with current assets at the end of 1938 $19,751,027 of which cash equaled $953,375 against current liabilities of only $5,075,686.

OUTLOOK: The company shows good profit margins, and with the current upswing in the automotive industry should do very well. In relation to earnings, fixed charges are not excessive, permitting a good return for the common shares. Enjoying as it does a strong position within the industry, the fortunes of the company will be good in accordance with automotive production.

MARKET ACTION:

	Electric Auto-Lite	Market Average	Auto-Lite's moves in relation to avge
'37 high to '37 low....	71% decline	64% decline	10% wider
'37 low to '38 high....	175% advance	76% advance	130% wider
'38 high to '39 low....	39% decline	34% decline	15% wider
'39 low to '39 high....	77% advance	44% advance	75% wider

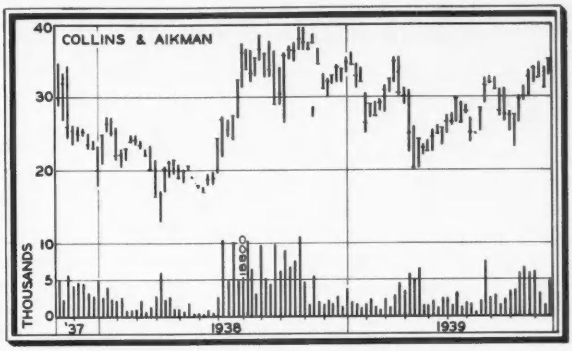
Average volatility on four moves 57% greater than M. W. S. index of 316 common stocks.

COMMENT: The company is a leading figure among concerns affiliated with a leading industry, and accordingly has an excellent record in spite of the wide fluctuations in its sales. Fourth quarter is shaping up as one of best in years.

Ten-Year Record

	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range (calendar years)
1929	$58.8	$10.5	$11.37	$6.00	174 -50
1930	38.4	5.0	5.32	6.00	114⅞-33
1931	22.0	3.9	4.03	5.50	74⅜-20
1932	13.1	1.4	1.21	2.60	32¾- 8½
1933	11.5	.7	.44	.30	27½-10
1934	22.1	1.2	.78	....	31⅜-15
1935	37.9	2.9	2.20	.30	38¾-19⅜
1936	50.8	4.5	3.51	2.60	47½-30¾
1937	60.8	4.2	3.43	2.60	45½-14⅞
1938	39.5	1.8	1.53	1.00	36¼-13¼
3 mos. ending March, 1939	....	1.6	1.35	.50	38½-26¼
June, 1939	....	1.2	1.01	.75	32⅜-22¼
Sept., 1939	....	1.0	.85	.75	40⅝-31½

Thumbnail Stock Appraisal



COLLINS & AIKMAN CORP.

BUSINESS: Holds dominant position as manufacturer of pile fabrics such as velvets, velours and mohairs, which are sold under trade name "Ca-vel." Automotive industry constitutes largest outlet with this company supplying 75 per cent of its total requirements. Therefore volume of activity is dependent on auto sales irrespective of changes in car models by General Motors, Chrysler and Ford. About 20 per cent of output is sold to the furniture trade with some further diversification obtained through production of a line of woolen fabrics designed for women.

FINANCIAL POSITION: Financial position is strong with cash alone, as of February 25, 1939, amounting to $4,731,010 or 3.7 times total current liabilities. Common stock—562,800 shares. Preferred—44,329 shares 5% cumulative ($100 par) convertible into 1⅔ common.

OUTLOOK: According to the U. S. Department of Commerce sales of auto vehicles for the first eight months of the current year ran 50 per cent ahead of the corresponding part of 1938. During the seven weeks since the end of August estimated production has jumped 90 per cent ahead of a year ago. On this basis it is logical to anticipate a substantial lift in this company's output, especially in view of an estimated 1,250,000 cars in the final quarter this year. Some indication that future potentialities are looking up is discernible from the semi-annual report, which shows that earnings for the first six months of the current fiscal year are now in the black. This is very satisfactory since the final half year is usually best in conjunction with increased production of automobiles.

MARKET ACTION:

	Collins & Aikman	Market Average	C & A's moves in relation to avge.
'37 high to '38 low....	79% decline	64% decline	23% wider
'38 low to '38 high....	173% advance	76% advance	128% wider
'38 high to '39 low....	44% decline	34% decline	29% wider
'39 low to '39 high....	79% advance	44% advance	80% wider

Average volatility on four moves 65% greater than M. W. S. index of 316 common stocks.

COMMENT: The shares of this company are fairly volatile advancing and declining to a greater degree than the market as a whole. Because of their seasonal as well as cyclical nature they constitute a greater than average risk.

Ten-Year Record

Year ending Approx. Feb. 25th	Operating Income (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range (calendar years)
1930	$3.0	$1.7	$1.73	....	35¾-12
1931	1.7	.1	d .92	....	17½- 6½
1932	2.4	1.0	1.02	....	10⅞- 2¾
1933	.02	d .5	d1.71	....	26 - 3
1934	1.9	1.2	1.52	....	28½-10
1935	.9	.2	d .30	$ .50	50 - 9
1936	5.4	3.9	6.28	4.00	66¾-39½
1937	7.3	5.0	8.16	5.00	62¾-18
1938	4.5	2.4	3.85	1.25	39¾-13¼
1939	2.1	1.1	1.71	.75	37½-20¼
3 mos. ending May 27, 1939	....	d .03	d .16	.25	35½-20¼
Aug. 26, 1939	....	.16	.19	.25	33 -23¾

d—Deficit.

Thumbnail Stock Appraisal

Better Days for Great Northern

Earnings Sharply Higher—Debt Charges Reduced

BY FRANK R. WALTERS

GREAT NORTHERN stands as a monument to the memory of that great Empire Builder, James J. Hill. For it was his foresight in the late 1880's that anticipated the opening of the northwest, and it was Hill who forecast that the future of this road would not be drastically affected by industrial fluctuations because of its broad diversification of traffic and fundamental dependence on agriculture. In a general way this prophecy turned out to be correct for Great Northern is dependent upon both agriculture and industrial activity.

But the fundamental element that makes for a large uplift in traffic and expansion in earnings is iron ore, and these shipments increase only in times of activity in that most basic of all industries—steel. A study of traffic statistics tends to confirm the impression that the vital factor in increasing earnings in any given year is largely a result of shipments of iron ore, and with steel operations throughout the country in new high ground at better than 90 per cent of capacity, contrasted with 52 per cent for October, 1938, it is logical to look for improvement. Further acceleration of this demand for iron ore seems likely in view of the heavy demand for scrap, which has lifted the price of the latter perceptibly, or almost $8 a ton. Since steelmakers vary the proportion of scrap and pig iron, which is derived largely from iron ore, in their charges in accordance with prevailing market quotations, high prices for steel scrap have the effect of creating increased demand for iron ore. The accompanying table indicates the importance of ore to Great Northern.

This drift of Great Northern toward dependence on industrial activity is only in line with a general tendency throughout the nation for since the day when James Hill dreamed his dream and made his prophecy industrial activity has moved relatively ahead of agriculture. While agriculture remains an important bulwark of the national economy; industry and all that it entails, such as large factories, mass production and urban populations, has forged ahead. The important point here is that Great Northern is situated so that it can change along with the main currents of our society.

Because of the highly satisfactory wheat crop of 1938 agricultural products accounted for 23.87 per cent of revenue freight tonnage in that year. This was in decided contrast with 1936 and 1937, when as a result of drouth revenues from this source dropped to 10.90 and 10.75 per cent, respectively, of total freight revenue. Loadings this fall should be something of a stand-off so far as wheat shipments are concerned, though this traffic should benefit due to the fact that considerable grain was placed in storage last year as a result of low prices. Though actual figures are not yet available, early indications point to some moderate improvement.

Relation of Iron Ore to Total Tonnage

Year	Total Tonnage Carried	Iron Ore (Tons)	Percentage of Iron Ore
1938	23,264,183	6,917,120	29.7
1937	41,513,174	23,052,009	55.5
1936	34,203,355	16,897,364	49.4
1935	29,394,382	10,711,062	36.4
1934	21,690,396	7,345,305	33.8

Sources of Revenue

It is interesting to note, however, that over a period of years the relationship between grain traffic and products of mines has worked in what may best be described as an inverse ratio. For instance, in 1938 mine products accounted for 47.28 per cent of the total revenue freight tonnage contrasted with 68.36 per cent in 1937, while agriculture rose from 10.75 per cent in 1937 to 23.87 per cent in 1938. The explanation for this undoubtedly lies in the road's preference for ore shipments, which normally yield a greater return than wheat. This is particularly true since ore shipments are usually made in the company's own cars, while much of the wheat traffic is carried in leased cars. On October 6 a dispatch from St. Paul reported that Great Northern had placed orders for 1,500 ore cars with delivery expected early in 1940.

Through its joint control of Chicago, Burlington & Quincy in conjunction with Northern Pacific, Great Northern has an interest in the largest grain originating carrier in the country. Burlington has maintained a long record of liberal dividends, and in 1938 distributed to this road some $2,200,000 in the form of non-operating income. This, however, is in contrast with dividends totaling some $13,286,000 in 1930. Introduction of

A A A with its plow-under program undoubtedly injured traffic of all grain carriers.

During the past few years lumber shipments have run on the whole something better than 11 per cent of total revenues. This business, of course, depends on continued improvement in the building industry and particularly residential construction. While public building construction has been tapering off in recent months private contracts continue ahead of a year ago. According to F. W. Dodge Corp. the September, 1939, total contracts in 37 states was $323,227,000, or 3 per cent ahead of August and 7 per cent better than September, 1938. The continued improvement, the report states, is due to larger volume of commercial and factory building as well as residential contracts, which continued at the August rate.

From now until Christmas it is normal to expect satisfactory merchandise shipments, and though this traffic division represents only a relatively small portion of the total revenue freight tonnage rates on these shipments, especially less-than-carload-lots, are particularly profitable. As a matter of fact Great Northern has a distinct seasonal trend in its business. This is due first of all to the seasonal character of grain traffic as well as the freeze over on the Great Lakes during the winter months, which usually starts around the first of December. Because of this latter development ore shipments on the Lakes during these months are impossible, and consequently during periods of industrial activity additional traffic is diverted to Great Northern. A distinct improvement normally starts in June which reaches a peak during August, September and October, and continues with some slackening to the end of the year.

Carloadings this year are now witnessing the usual seasonal pick-up and for the week ended October 14 ran 32.7 per cent ahead of the corresponding part of 1938, while for the year to date, i.e., the first 41 weeks, they are 20.3 per cent better than the previous year. According to the latest available figures for the nine months ended September 30 freight revenue ran about 19 per cent ahead of the corresponding part of 1938, though passenger traffic was substantially the same. Nevertheless this relatively small gain in revenues resulted in approximately a 48 per cent increase in net railway operating income, so that the net income during this period was increased to $1,764,306 from a deficit of $2,568,770, or from a deficit of $1.03 per share to a profit of $0.71 per share. This showing is largely a result of the management's ability to reduce costs approximately 11 per cent in 1938, while revenues dropped about 16.5 per cent in that year. Following this accomplishment the road increased outlays for equipment and maintenance this year and at the same time was able substantially to restrict transportation costs so that the actual dollar expenditure was only $894,105 additional in this item for the first nine months compared with the corresponding part of 1938.

Reduction in Funded Debt

Great Northern has further improved its earnings potentialities by pursuing a debt reduction policy, and in this respect has followed a course different from most railroads in the country. As of June 1, 1939, funded debt totaled $329,736,364, which represents a reduction of $25,073,151 since 1934. During the same period interest charges were reduced approximately $5,000,000. The greater part of this reduction was accomplished in 1936 and 1937 through issuance of $99,422,000 of General Mortgage 4 per cent bonds in order to refund a $100,766,000 General Mortgage 7 per cent issue. The Series G issue of 4 per cent bonds is convertible into the outstanding preferred stock at $40 per share, or 25 shares of preferred for each $1,000 bond, *(Please turn to page 124)*

Courtesy Great Northern Ry. Co.

A Great Northern iron ore train makes connections with an ore boat at the company's ore loading dock, the largest of its kind in the world.

For Profit and Income

War Orders

First war business of any importance (aside from aircraft) to be placed in this country has gone to the truck manufacturers. The French Government has ordered 3,500 to 4,000 trucks from Studebaker, White Motor and possibly other concerns not as yet disclosed. Details of the contracts are not available but it is believed that profit margins on the business will be quite substantial. These orders are probably forerunners of much larger ones to come later. More would have already been placed had not the buyer specified delivery by the end of the year, a virtual impossibility except on small orders as truck parts suppliers cannot get delivery on steel in less than 60 days and require another 15 to 30 days to machine it.

Business as Unusual

Freight carloadings in October 21 week up contraseasonally to 861,198 cars, highest since November, 1930. * * * Retail deliveries of 15 leading automobile makes in second ten days of October jump 30% over first ten days. * * * Machine tool orders set all time record in September. New order, index discontinued due to inavailability of complete data on export business. * * * Furniture sales gain 25% from August to September against 7% average rise over past five years. * * * September rail net estimated at $36,000,000, best since December, 1936. * * *

Courtesy Mack Truck

These light trucks are part of a fleet recently purchased by our own Marine Corps. The French Government has recently placed orders for from 3,500 to 4,000 similar vehicles of various makes.

Can Company Rebates

A new pricing system, initiated by American Can and followed by Continental, has been announced whereunder a maximum price will be set the first of each year and rebates will be made to customers if tin plate prices decline more than 10 cents per base box thereafter. Also, American will lower prices for some lines of packers' cans and is giving customers a straight 2% rebate for both 1939 and 1940. This year's rebate will cost the company something like $1,800,000 (73 cents per common share), and a similar payment next year plus lower prices will further affect profit margins. However, the new plan also has some advantages in that inventory profits and losses will be minimized and a free tin plate market will be established.

U. S. Steel Stock Held Abroad

Most talk of foreign selling and the amount of foreign held stock still overhanging our markets has been based on guesswork for actual data are not generally available. But for at least one market leader—Big Steel—fairly up-to-date figures have come to hand. These indicate that up until the end of September, at least, there had been little liquidation from abroad. Steel common in foreign hands on September 30 amounted to 833,244 shares or 9.57% of the outstanding total as compared with 841,965 or 9.67% on June 30. The English and Dutch were the largest foreign holders, owning between them and in about equal parts 648,-981 shares. Canadian holdings were 131,485 shares and French only 10,-

Current Earnings Reports

	Earned Per Share 3rd Quarter 1939	3rd Quarter 1938	9 Months 1939	COMMENT
Air Reduction	$ .50	$ .37	$1.37	Fortunes rising with expansion of heavy industries.
Allis Chalmers	.53	.28	1.49	September 30 unfilled orders equal third quarter's sales.
American Brake Shoe	.44	.26	1.45	Buffalo plant to be expanded. Export department established.
American Chicle	2.47	2.13	6.78	Well protected on raw materials.
American Telephone & Telegraph	2.39	1.92	6.67	Now covering dividend for first time since 1937.
Atlantic Refining	.61	.34	1.01	Construction begun on new natural gasoline extraction plant.
Bendix Aviation	.44	.04	1.47	Lands $500,000 War Department order.
Caterpillar Tractor	.77	.42	1.85	Advances prices on two tractor models. Preferred stock called for redemption.
Commercial Investment Trust	1.17	....	3.23	Purchases of installment paper in sharp uptrend.
Corn Products Refining	.96	.65	2.29	Earnings maintenance depends on steady or declining corn prices.
du Pont de Nemours	1.88	.92	5.08	Test sales campaign on nylon stockings under way in Wilmington.
Eaton Manufacturing	.54	d .34	2.33	Fortunes rising with those of auto makers.
General Electric	.30	.15	.87	New southern plant planned. Sharing in War Department business.
General Foods	.84	.74	2.28	New Hoboken plant in operation. Stable earnings present.
Hercules Powder	.95	.46	2.47	Gets Government contract for $457,000 worth of explosives.
Houdaille Hershey "B"	d.13	d.21	.57	Chrysler strike unfavorable but Ford is largest customer.
Johns-Manville	1.58	.89	2.69	New plant for making insulating board from southern pine is completed.
Libbey-Owens-Ford	.54	.34	1.55	Third shift added at plant turning out new laminated safety glass.
Mathieson Alkali	.30	.36	.61	New plant to begin synthetic salt cake shipments.
Monsanto Chemical	.96	.51	2.56	September chemical sales set all-time record. Most plants now at capacity.
National Biscuit	.41	.51	1.20	Cuts shredded wheat price 25%. Building new bakery in Atlanta.
National Distillers	.51	.68	1.54	Whisky prices may be firmer on better demand.
Phillips Petroleum	.38	.87	1.23	Fourth quarter earnings expected to be best of year.
Texas Gulf Sulphur	.46	.41	1.31	Financial position strong. Dividend appears secure.
Union Carbide	.92	.61	2.11	Bakelite acquisition strengthens position in plastics. Industrial gas sales expanding.
Underwood-Elliott-Fisher	.41	.37	1.58	Pleads not guilty in Government anti-trust suit.
United Aircraft	.80	.45	2.18	Best diversified unit of aircraft industry. Getting full share of present boom.
United Fruit	1.03	.45	4.02	Subsidiary reduces refined sugar price.
United States Gypsum	2.08	1.23	4.46	Upturn noted in residential building. Other categories already rising.
Westinghouse Electric	1.03	.63	3.40	September 30 unfilled orders top $58,000,000.

548. Britain, the principal seller last quarter, disposed of 10,381 shares. Since this exceeded the total decline in foreign holdings, it is apparent that others besides Americans were absorbing British offerings.

Blitzkrieg Markets

For almost a year and a half, now, all of the market's major upmoves have occurred in lightning fashion. The rise of June-July, 1938, the post-Munich rally and, finally, this year's September war advance each conformed to the blitzkrieg idea. Chartists point out that the market's action immediately preceding these moves was much the same in each case; that is, firm to weakish on very small volume. In each case, also, these advances were earmarked at their very outset by extraordinary daily gains in the averages to the accompaniment of soaring volume.

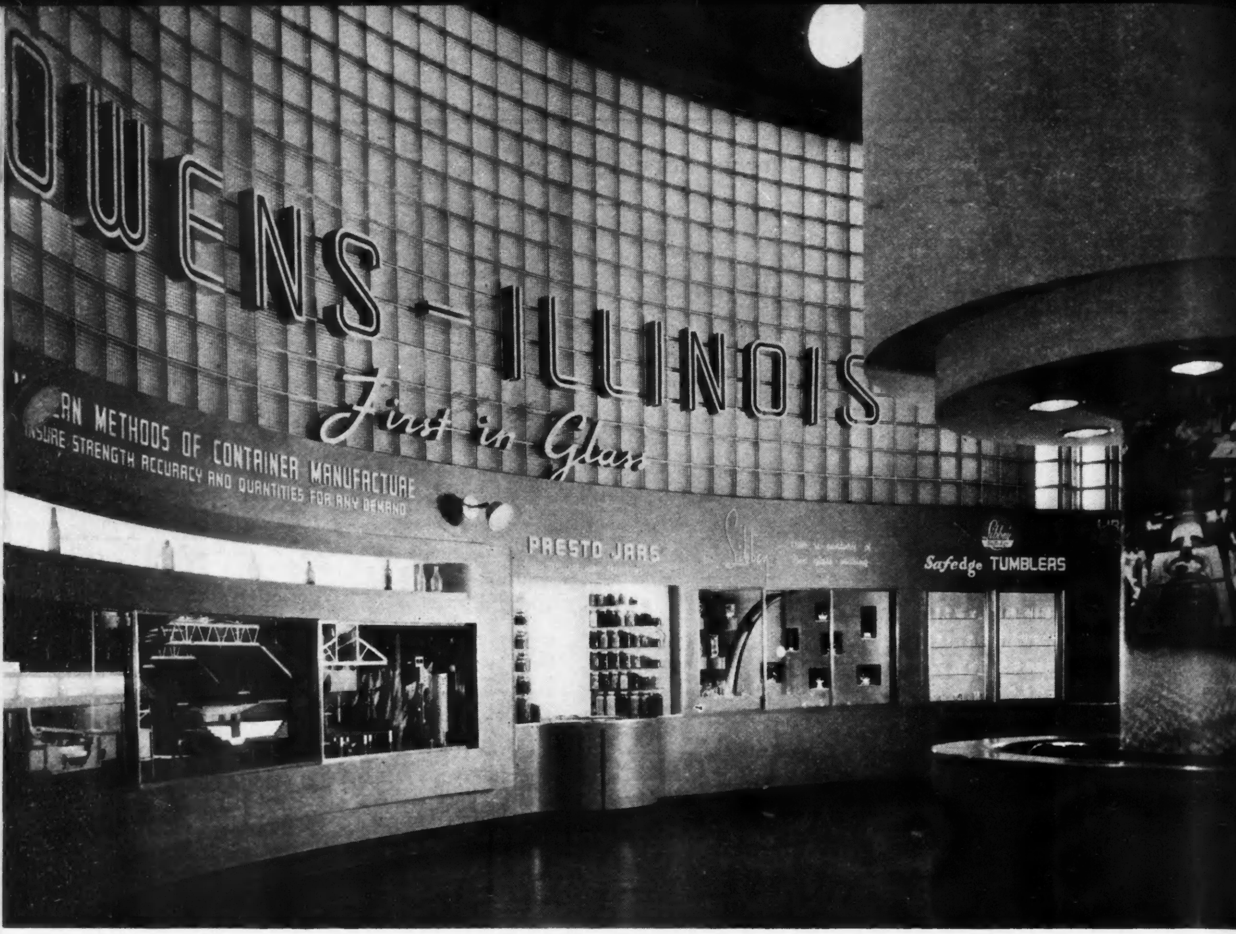
100% of Capacity

Operations of Bethlehem Steel are at 100% of capacity, its backlog of unfilled orders is the highest in peacetime history and new business is coming in faster than shipments are going out. Which suggests a pretty fair fourth quarter. Third quarter net was equal, after preferred dividends to $1.10 per common share against a deficit of 45 cents a year ago. A more interesting comparison, however, may be made with the third period of 1936. Operations then averaged 69.1%, only one point under the 70.1% average of last quarter, but common share earnings amounted to only 85 cents. This despite the fact that in the earlier period the steel industry had no fault to find with existing cost-price relationships. Shipbuilding's the answer.

Dividend Prospects

The current earnings upsurge, together with the generally conservative dividend policies followed by most companies earlier this year, has greatly enhanced year-end dividend prospects. Instances where full year profits should far exceed shareholder payments to date are apparent on every hand, the companies listed below being but a few typical examples.

	Full Year 1939 Est. Earnings	Divds. Paid or Decl'd. To Date
Allis Chalmers	$2.00	$0.75
du Pont de Nemours	8.00	3.75
General Electric	2.00	0.75
General Motors	4.00	2.25
Inland Steel	6.00	1.50
Johns-Manville	4.75	0.75
U. S. Gypsum	6.00	2.00



Courtesy Owens-Illinois

View of Owens-Illinois striking exhibit at the N. Y. World's Fair.

Few industrial organizations unite within themselves a proven earnings record, a certain inherent stability and potentialities for large sales expansion. If the cautious investor, looking for both income and appreciation possibilities, searched far and wide it is extremely doubtful that he could do better than consider these requirements in conjunction with the common shares of Owens-Illinois Glass. Actually this company meets all the demands such a gentleman would be likely to seek since it combines with an unbroken dividend record from the year of its inception in 1907 steady and expanding earnings along with a growing, broadened and diversified market for its products. In brief the shares of Owens-Illinois offer the investor an opportunity to participate profitably during periods of industrial expansion, while in times of depression they assure him, as much as this is ever possible, a sound dividend paying security and one that should recover during the next upward phase of the business cycle.

Of the company's many divisions the one making glass containers, closures, plastics and corrugated and wood cases ranks as the most important. Of the more than 7,000,000,000 glass containers sold annually Owens-Illinois sells between 35 and 40 per cent of them, and revenue from this source accounts for more than two-thirds of the consolidated net sales. The chief activity of this division, however, is the manufacture of bottles, such as medicine and perfume bottles of all kinds, bottles used as food containers, for toilet waters as well as for such important lines as milk, beverage, liquor and beer.

As a matter of fact repeal of prohibition in 1933 opened up another huge outlet to the company, and the increased use of strong liquors and beer found favorable reflection in earnings during this period. In response to this container sales shot ahead for the largest percentage gains in a decade. Actually many shrewd investors purchased the shares of this company rather than those of leading distilleries, and subsequent developments proved them to be correct. While the distillery companies ran into inventory problems and price wars, following the initial boom, Owens-Illinois continued selling bottles at a small profit but in considerable volume. While the end of prohibition added one more large market for the company's output, it was not the sole cause of gains since 1933 by any means. Prohibition repeal did result in a more rapid sales and earnings growth than would have otherwise taken place, but this is all. It accelerated but did not change the long term growth of the company. Indeed, a fairly close correlation can be drawn between industrial production and glass container shipments.

While the can manufacturing companies have developed the beer can in recent years with considerable success in competition with bottled beer, this cannot be

considered a typical condition. Generally the various types of containers such as wood fibre, tin cans and glass have a tendency to cancel each other out, since each is used for purposes for which they are best adapted and do not conflict as much as is generally assumed. As things worked out, however, the beer can was instrumental in the introduction of the no-deposit "steine" and "stubbie" beer bottle. These new products eliminated the former bottle-deposit system, and so now a bottle is used only once whereas formerly it might have been used twenty times. At present the estimated cost of the new bottle is 1½ cents compared with 2 cents for the old type, and they are approximately 15 cents cheaper per case than cans.

Actually competition develops more from products of like nature produced by different companies in the same line. However, since most companies engaged in the industry are strong financially, excessive price cutting is not indulged in. It should not be overlooked that as a result of large scale production methods low prices are virtually essential, because only with low prices can mass purchasing of products operate on a continuous basis over long periods of time.

developed in 1903. About one-half of total manufacturing costs consists of raw materials and fuel with wages accounting for about 30 per cent. Thus labor relations provide an important factor in any calculation of future earnings, while selling prices are ordinarily adjusted to raw material costs. This situation also leaves the company comparatively free from inventory problems, since all raw materials are readily available. It should be added in passing that an increasingly important adjunct to the container business is the operation of seven major plants engaged in the manufacture of corrugated cases.

Back in the late 1920's there were rumors of a possible merger between Owens-Illinois and Continental Can. Whether the depression intervened, or the rumors lacked foundation in fact, is not known. In any event, though the merger never transpired, this company early in 1936 initiated a program looking toward the acquisition of can manufacturing units. For the organization of this undertaking a subsidiary, Owens-Illinois Can Co., was formed, which proceeded to operate the newly acquired companies located in McKees Rocks, Pa.; Baltimore, Md. and St. Louis, Mo. These units now turn out cans for drugs, chemicals, paints, lubricating oils, talcum

Sales and Earnings Point Up

BY ROBERT LANE

It is not surprising therefore that Owens-Illinois and Hazel-Atlas Glass Co. do approximately 50 per cent of the glass container business, while the former company's sales are about twice as large as those of the latter. An additional seven companies handle 25 per cent of this business, so that nine units in all are responsible for 75 per cent of the total glass container output.

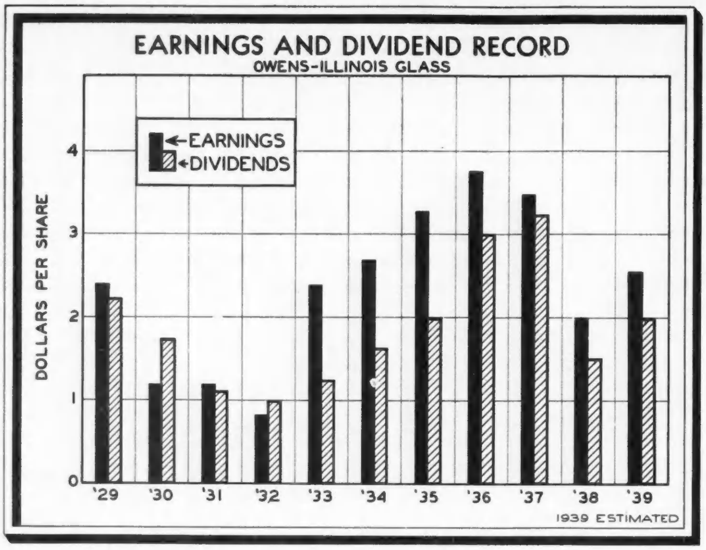
Further indication that demand for glass containers is increasing in relation to other divisions of the industry such as plate, window and glass for miscellaneous uses is verified by figures for the last really satisfactory year, i.e. 1937. In this period 50 per cent of total glass sales consisted of glass containers, whereas in 1929 only 42.6 per cent of total sales was accounted for by this item. This is in contradistinction with other divisions of the industry during these years. These divisions stand as follows in relation to total sales: window glass in 1937 was 13.3 per cent whereas in 1929 it stood at 16.4 per cent of total sales. Plate glass stood 11.7 per cent and 14.8 per cent respectively, and glass for miscellaneous uses 25 per cent and 26.2 per cent.

The basic formula for making glass has come down through the ages, since the fundamental ingredients of soda ash, sand silica and lime remain the same. The difference today from bygone eras dating back as far as 1,500 B. C. lies in their treatment consisting of the continuous furnace, which was originally introduced in 1872, and the Owens Automatic bottle making machine first

powder, candy, foods and many other products, but they do not—and this is interesting as well as important—make a beer can. This is due to management policy which maintains that the beer can is not a suitable container for beer. At present this division ranks fourth in the United States in the production of cans.

The can was first introduced as a result of the management's progressive policy to cover other divisions of the container industry just in the event that anyone of them should expand at the expense of the glass container. This undoubtedly appeared highly necessary at the time, since the introduction of the beer can was a definite threat to the beer bottle. Judging purely from surface appearances the impression received is that the can companies have suffered more from competition with glass container units entering their home territory than have any of the glass companies. One reason for this is possibly that the cost of tinplate, over which canning companies have at best only limited control, places them at a disadvantage. However, experience shows that these major units as a result of large scale operations have been able to adjust costs and prices so that a comfortable profit margin has been maintained. Thus a narrow profit per unit has had the effect of holding marginal producers to a minimum and added to the inherent stability of the industry.

Early in 1936 the management undertook to further broaden the activities of the company by acquiring The



Libbey Glass Manufacturing Co., located in Toledo, Ohio. Output of this unit consists of a complete line of thin blown tumblers and stemware, which are sold to restaurants, hotels, bars, clubs, etc. Manufacturing facilities consist principally of automatic machinery, though some hand processes are utilized. This division has shown rapid growth ever since it was incorporated within the company and appears to have a very satisfactory future ahead of it. The Westlake tumbler machine is undoubtedly one of the outstanding contributions of this division for with this exclusive process it is possible to manufacture high quality tableware at a small part of the cost involved in production of hand blown tumblers.

Possibly the most promising branch is the industrial and structural products division, and it is here that the investor might watch for strides likely greatly to enhance potential earnings in the future. One of these comparatively new products now having an expanding and broadening market is fibreglass. This undertaking was consolidated on November 1, 1938, when all assets of glass fibre products were organized as Owens-Corning Fibreglass Corp. Owens-Illinois obtained a 49.77 per cent common stock interest in the new company as well as 17,856 shares of preferred stock. Corning Glass Works received the balance, and this new company is operated independently of either concern.

Fibreglass is used for insulation in homes, mechanical refrigerators, railroad refrigerators and Pullman cars. Insulating materials for the building trade are sold through U. S. Gypsum Co., which aids in the distribution of products in this field. In appearance this fibre looks something like cotton, but actually it has the advantage of being both fire and vermin proof. The literally millions of air spaces formed by the mass of fibres gives it an excellent insulating quality.

Another new development is the glass block used for exterior walls, panels and store fronts as well as for interior partitions in office buildings, homes, and factories. Known by the trade name "Insulux" these blocks are translucent though not transparent and are made in a variety of shapes and designs. Though costing somewhat more to install than hollow tile or plaster partitions, they compare favorably with partitions of steel panel. On the other hand salvage of glass blocks in the event of removal is about 100 per cent, whereas hollow tile is a total loss. Productive capacity of this division has been increased steadily during the past few years.

Glass wool has progressed to the point whereby all types of glass fabrics are made, and used for fire proof theatre curtains and draperies in cases in which the fire hazard is paramount. In this field, however, competition from asbestos must be met, so that its broad future is as yet undetermined.

Another recent feature is the placing of color lettering on glass containers. Better than 30 per cent of Owens-Illinois milk containers are now carrying this lettering, and this added merchandising feature is unquestionably improving the sales position of the company in this field.

In May, 1936, a program of expansion and improvement was initiated and $12,500,000 of new money was raised through issuance of 63,380 shares of additional common stock. These funds were appropriated to Owens-Illinois' different divisions for the purpose of improving and enlarging its manufacturing facilities. The financing was partly the result of a remarkable growth of activities since 1930, a period during the greater part of which most companies were doing little better than holding their own.

But the most important point of all is that Owens-Illinois makes money and pays its stockholders a dividend year in and year out. After all there are other companies experimenting with new products and introducing new ideas, but by the time the year rolls around the stockholders may have an "interesting" investment, but not a profitable one. Here exists that happy combination in which, as we have seen, new products are introduced, a progressive policy followed and simultaneously the income statement ends each year in the black.

Earnings Record

Undoubtedly 1932 was about as poor a year as any in the last two decades, if not in the history of this country. Certainly it provided an acid test for management and the intrinsic value of any enterprise. In that year Owens-Illinois earned $2,067,886, or the equivalent of $1.62 per common share. Because the company was strongly entrenched financially it paid a dividend of $2.00 per share on its common stock. From that time on earnings gained steadily until 1936 when some $10,099,131 was reported as net income, an increase of almost 400 per cent in as many years. On the other hand investment in manufacturing plants, land and buildings as well as equipment, gained about 26 per cent in this period, though if the years from 1936 to 1938 are included, when considerable addition to plant took place, the increase is approximately 64 per cent. In any event the new acquisitions turned out to be highly profitable investments for the company, and this record (*Please turn to page* 121)

Strangest of All Bull Markets

The Two Characteristics of Former Rises—Confidence and Enthusiasm—Are Strikingly Absent

BY JOHN LLOYD

Precedent:	Today:
1929—Economists prove that no recession from the "permanent plateau" of stock prices is probable, hail the new era.	1939—Economists lean toward a cautious attitude and warn against the consequences of rapid expansion.
1907—Money rates, sensitive barometer of financial activity, shoot up and call money goes to 125 per cent.	1939—Bankers find it difficult to make short-term loans. Call money rates have been pegged at 1 per cent.
1915—Commodities have staged the most pronounced rise in history, as war opens vast market for American farmers.	1939—After a brief upsurge, commodity markets have shown a tendency to wait out the situation in Europe.
1938—The prospect of war in Europe carried stocks to new lows, but the recent accord for peace has brought sharp recovery.	1939—Outbreak of war touched off a sharp upsurge into new high ground, but now with some talk of peace the market is idling.
1929—Brokers' loans average around $8,500,000,000, or nearly 10 per cent of the value of listed stocks.	1939—Recent buying has been for "cash on the line" with brokers' loans at $500,000,000 or 1 per cent of value of listed stocks.
1922—For the second time in history of charted stock averages, the industrials have crossed the rails.	1939—At a point in the boom the rails sprung a surprise and took the initiative away from the industrials; still far below them, however.
1939—August—Wall Street is bearish on the disquieting news from abroad. Dow Jones 136.	1939—September—Street attitude is that domestic business outlook should justify higher stock prices. Failure to do so is suspicious. Dow Jones 156.
1933—Excess reserves approximately $½ billion at year end.	1939—Excess reserves continue rise to dizzy heights, touch $5,530,000,000.
1929—Business activity stands at 116 and the stock market at 300.	1939—Business activity has hit the 116 level and the market is around 150.
1929—Everything looks good to the public in these bull sessions; the market advance covers all fronts, and practically all individual issues.	1939—Current boom finds the market highly selective with war stocks up, and others including Woolworth, National Biscuit, International Nickel, Loew's down.
1915—Business sentiment is for climbing on the war profits band wagon.	1939—Business counsels no amount of war gain can compensate for the post-war slump.
1907, 1915, 1919, 1922, 1929, 1933, 1937—all times of rampant enthusiasm and confidence—which, after all, is the common characteristic of bull markets.	1939—Business is good, the stock market in an uptrend, but we mistrust our luck, think in terms of the reaction to follow.

BIGELOW-SANFORD CARPET — MOHAWK CARPET MILLS

Earnings in Strong Recovery

BY WARREN E. KRAEMER

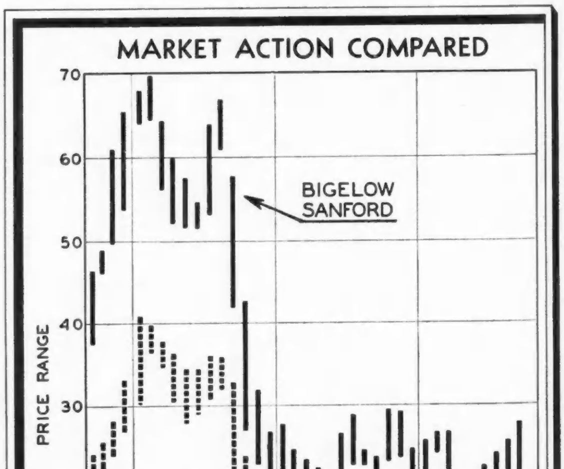
The carpet industry is at present influenced by two forces that tend in opposite directions—one towards sustained business and increased profits—the other towards operating difficulties that would largely offset this promise.

Demand for floor coverings of all kinds is extremely volatile since they are relatively durable semi-luxury products. Purchases are made chiefly on a replacement basis and vary widely with consumer buying power and the general level of public confidence. Right now the sharp revival in business activity has brought forth a strong demand—stronger than many dealers are in a position to meet efficiently in as much as the conservative buying policy followed during the last year had depleted their inventories of finished carpets. This means that orders are going straight through to the manufacturers, building up fat backlogs for their factories. On the face of it nothing could be better, but the one sour note in the picture is the fact that all the wool used in the production of rugs is of a special type that must be imported from abroad. Principal source of supply, accounting for over 42 per cent of the total, is the British Empire. And her ally, France, stands third with 11 per cent of the total. More than 53 per cent of the wool ordinarily purchased by domestic carpet makers, therefore, comes from nations that are now at war. Wool is a valuable commodity and most countries have halted exports until they are better able to determine their own needs. The Argentine, however, supplies 24 per cent of our needs and this could be increased.

As it affects the two leading carpet manufacturers, Bigelow-Sanford Carpet and Mohawk Carpet Mills, the situation presents undoubted difficulties, but there are many factors which indicate that they will both be well able to take advantage of the promising domestic markets.

It takes months to get wool from British India, New Zealand, Syria, and the other distant lands from which we draw our supply. Because of the purely physical problems involved in these shipments, Bigelow and Mohawk have followed the policy of constantly keeping large inventories on hand as a safeguard against a shortage of raw materials essential to production. Even at the present high rate of consumption, these stores will be ample to take care of requirements for many months to come. During the last war, once the initial shock had worn off, both companies were able to obtain sufficient quantities of wool to satisfy their needs. Present indications are that war uses for wool have not increased in number and, with uniforms made from cotton fabric mixtures to a large extent, the amount of wool needed may be even less than it was twenty years ago. In view of their need for as many dollar credits as they can possibly get, it is logical to assume that the Allies will lighten or perhaps do away with the restriction on the export of wool entirely. Then, too, as noted above, Argentine output can be enlarged. Such increases would be in line with the intensive Government-sponsored cultivation of the South-American markets. As the bugaboo of material shortage is gradually modified by developments and study, and the wool markets takes on a more normal aspect, the immediate earnings prospects for the two companies brighten.

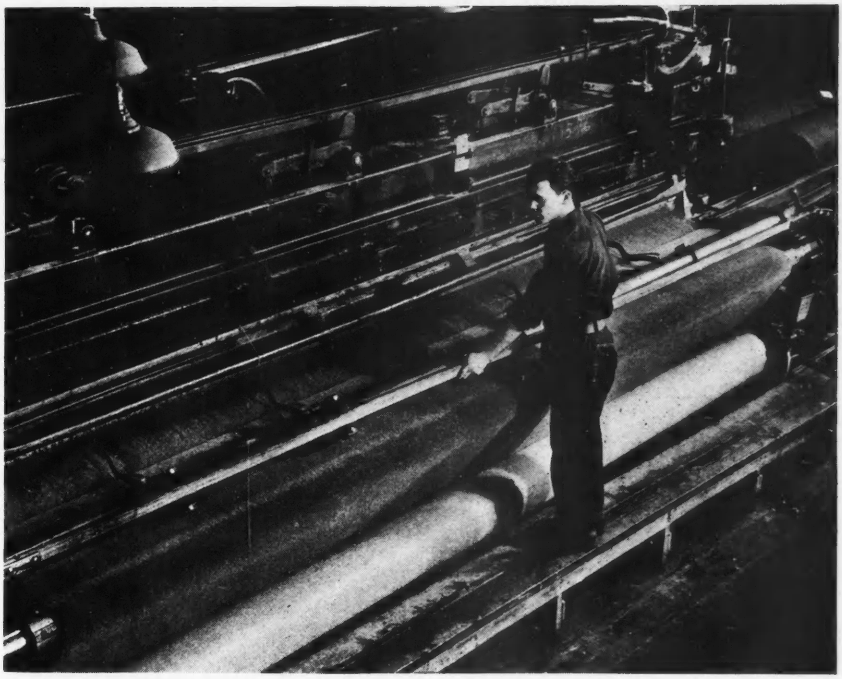
Bigelow-Sanford has 96 buildings in Amsterdam N. Y. equipped to manufacture all grades of velvets, tapestries, orientals, Wiltons and Axminsters, and to spin



and dye the worsteds used in rug weaving. Other plants are operated in Thompsonville, Conn., and total annual capacity for all the looms is about 15,000,000 yards.

With production concentrated in Amsterdam, N. Y. too, Mohawk operates 54 mills handling all processes right through from spinning and dyeing worsted to cutting the finished carpeting. The company has its own machine shop and foundry for making and repairing looms and spinning machinery.

Both companies have sales offices in the principal cities throughout the nation, and handle distribution through jobbers and wholesalers. Some direct selling is done though to large furniture houses and department stores on a contract basis. Since selling and laying carpets is a difficult task requiring special information that is not readily available to the average store, both companies offer instruction in the finer points of the art. Relations with stockholders are cordial. The companies are among those few that issue complete statements twice yearly, thus enabling holders to really follow the activities of their respective concerns. In line with this policy too, was the issuance of a report on the effects of the war about a month after the fighting began in which it was emphasized that, barring untoward developments, business would be responsive to the domestic upswing.



Courtesy Bigelow-Sanford

Depleted dealer inventories in carpets brings increased business to the looms.

Demand for Carpets

The heavy residential construction over the last few years has created an additional demand for carpeting that held up well during the slump of last year. In point of volume, therefore, both Bigelow and Mohawk showed much smaller declines than the drop in earnings seemed to indicate. The number of carpets sold was only 25 per cent less on the average, but the prices were cut sharply as dealers strove to unload top-heavy positions. This, added to the reduction in the value of their own inventories, made for rather large per share losses. In the case of Bigelow net loss per share in 1938 was $5.26 and for Mohawk in the same period it was $2.72 per share. The tendency for earnings to range widely may be seen by the contrast between last year and the two preceding years. In those periods Bigelow turned in a net profit per share of $1.29 and $4.83, while Mohawk reported net per share profits of $2.27 and $2.31. Today the situation shows a strong improvement over last year with the shoe on the other foot as far as inventories and prices are concerned. Dealer stocks are low and with market prices rising steadily, sales are pacing production all the way.

The recent adoption of the last in first out practice of inventory accounting has done something to even out inventory fluctuations and the pronounced effect they had on earnings. Now automatic reserves are set up when the market value of raw material rises and these form a bulwark against a corresponding loss when the market trend turns down once more. Nothing, however, can alter the fact that the companies both carry huge inventories, the intrinsic value of which is bound to be reflected in the position of the stocks. Habitually selling on a very low price-earnings ratio, they are often below their net quick asset values in terms of inventories and cash, and yet turn in excellent profits during the year.

At the end of last year both Mohawk and Bigelow were in a strong financial position. The former had current assets of $10,858,074 of which cash amounted $539,969 against current liabilities of $2,663,046; and the latter had current assets of $13,216,282 of which $808,996 was cash against current liabilities of only $1,983,521. Both companies reduced their outstanding bank loans as their heavy inventory positions were being liquidated.

Though the nature of their business gives the same general character to the companies, there are points of difference that stand out, particularly under present market conditions. Bigelow-Sanford is the larger of the two and represents the consolidation of several of the oldest houses in the country. Its volume of sales is approximately twice that of Mohawk and its inventory follows the same ratio. On the other hand it has only 313,609 shares of common stock outstanding against the 546,300 shares of the smaller company. And in a rising commodity market, therefore, the per share value of Bigelow's inventories appreciates far more rapidly than that of Mohawk. Naturally the stock market is not slow to make the same (*Please turn to page 122*)

American Water Works Appraised

Utility System Currently Gaining Through Pickup in Industrial Territory and Newly Acquired Rural Customers

BY FRANCIS C. FULLERTON

IN line with the proven stability of the utility companies as a whole, American Water Works and Electric has never failed to report a profit at the end of the year. But more than that, the operations of the system's power subsidiaries are centered in the industrial sections of Pennsylvania, Maryland, Virginia, West Virginia, and Ohio, which means that any step-up of heavy goods production automatically brings a correspondingly sharp increase in electricity sales. This year, with glass, coal, steel, and the hundreds of other industries in those districts registering wide gains over last year, power output of the company shows a rise for the first nine months of 1939 of 14 per cent, and each succeeding month has brought a further increase.

West Penn Power, the control unit of the American Water Works' electric division, and its subsidiaries account for over 67 per cent of the system's revenues. Approximately 1,500 communities with a total population of 2,160,000 are served. Sales of electricity to industrial consumers dropped off last year from 1,703 million kwh to 1,280 million kwh, not surprising in view of the gloomy industrial picture that prevailed during the first half. The company, however, concentrated on increasing its residential sales with marked success. Through "pushing" all manner of appliances, individual home consumption of power rose from 811 kwh in 1937 to 839 kwh in 1938. In the rural areas the system gained approximately 12,000 customers, and large numbers of potential users of power are within easy reach of the 2,200 miles of main distribution lines that were constructed last year.

By a reduction in the percentage of power output that goes to heavy industry through an expansion of its rural and residential facilities, the company has laid the base for a greater stability of earnings on a higher plane than it has to date enjoyed. Nineteen thirty-seven was a record year in the system's history in point of power output, and this year indications are that this record will be broken. The generating equipment used is highly efficient, consisting mostly of steam plants, with a few hydro-electric and gas units in operation where they are cheaper to run. Coal is plentiful in most districts served, and by employing a new crushing method for fuel, waste has been reduced to a minimum.

American Water Works operates the largest group of private water companies in the country. Located in Cuba and 21 states having a total population of around 3,425,000 they account for about 26 per cent of the total revenues of the system. Together these companies can pump 763,000,000 gallons of water per day, and sales last year were 51,558 million gallons. By far the greater part of this water goes to residential consumers, and therefore the revenues from this source are stable, although they do indicate a long term growth as the number of customers increases steadily. Perhaps the most important influence on these operations is the weather, especially in the summer when people use quantities of water for their lawns. And the drop in sales last year was directly attributable to the heavy rains evenly spread over the entire country.

The company has a reputation for efficiency in management of water properties, and has not been subject to any pressure about rates or costs on the part of municipalities that it serves. On the contrary, the city of Louisville has asked that American Water Works assume control of its water system. For some time the city has been in financial difficulties and was unable to meet sinking fund requirements on its obligations. Inves-

American Water Works & Electric

	Gross Income in Millions	Net Income in Millions	Per Share $ Earnings	Per Share $ Dividend	Price Range
1938	50.59	2.06	.38	....	16⅛- 6
1937	53.92	3.88	1.14	.80	29½- 8
1936	52.05	4.75	1.52	.40	27¾- 19⅛
1935	47.82	3.49	1.32	.45	22¾- 7⅛
1934	45.94	2.99	1.03	.75	27⅝-12⅝
1933	42.54	3.34	1.22	1.00	43¼-10⅞
1932	43.67	3.69	1.42	2.50	34½-11
1931	49.93	6.10	2.80	3.00	80¾-23⅛
1930	54.07	6.62	3.10	1.75	124⅞-47⅝
1929	54.12	7.82	4.00	1.00	199 -50
1928	51.64	6.21	3.49	1.00	76½- 52

tigation showed that the water system was losing money hand over fist when it might well have proved a source of revenue. The reasons for this were many—mainly waste, excess capacity, and uneven rates. After studying the situation American Water Works stated that it could save large sums without increasing rates, and offered to take over management without charging fees if it could have a percentage of what it was sure could be saved! This is certainly an interesting development in view of the charges brought against utilities in general during recent years by Government economists.

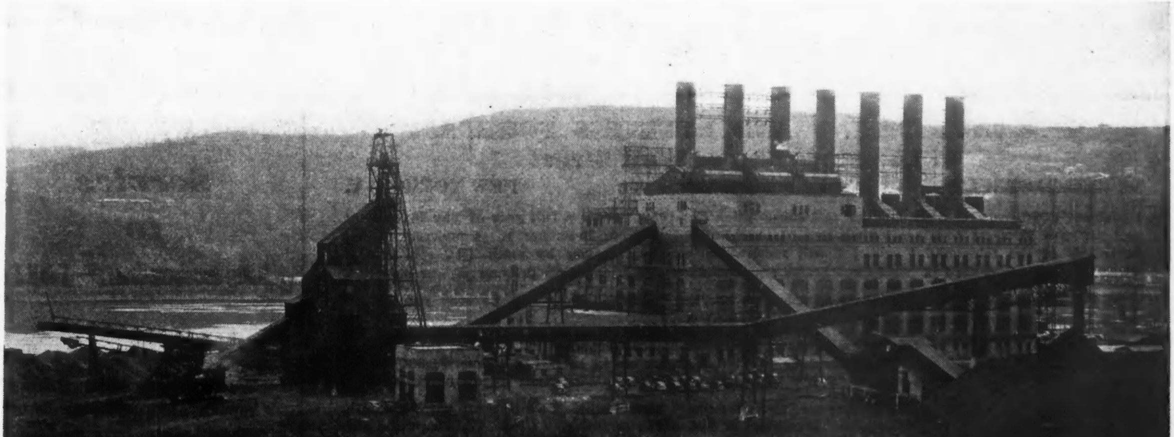
In addition to its electric and water properties, the company also has a transportation system of street car lines and bus routes. The former has not proved to be very profitable and a process of gradual elimination has been carried out. Last year, for instance, 37 miles of track were cut from the lines. The bus lines concentrate on serving industrial centers and give promise of making a much better showing during periods of industrial activity. At the end of last year the company operated 333 miles of street-car track and 1,600 miles of bus routes.

As a rather odd side-line American Water Works also owns and manages a fruit ranch of several thousand acres in California. At the present time it is losing money, but certain new methods have been introduced and this coupled with better prices for peaches and other fruit should enable this unit to show a small profit for the year.

Any mention of public utilities at once brings to mind the S E C and the shadow of the "death sentence" clause of the holding company act. American Water Works is in a favored position as far as the greater part of the act is concerned. With its electric properties confined to five contiguous states and interconnected by transmission and joint distribution lines, it meets the integration requirement. And when it submitted a plan to the commission proposing the reduction of the system from a six stage holding company to a three stage holding company it was promptly accepted. The three stage maximum is in accordance with a provision of the act that stipulates that all the operating units in a utility holding company system must be owned directly by the parent company or by one or more sub-holding companies that are themselves directly owned by the parent. American Water Works proposed to have small sixth and fifth stage units absorbed into the fourth stage, and then to eliminate the West Penn Power Co., the top control unit in the electric division. Unfortunately, the program hit a snag in the form of thin capital markets and unsettled conditions that prevented the refunding of $60,000,000 in West Penn obligations on a reasonable basis. The company has since then been working on a new plan which it will submit to the commission shortly. The provisions of the new plan are not known but in view of the holding company act's requirements, it cannot be too different from the first one. The water works divisions of the system have not been studied by the government under the utility program, and there seems little likelihood that legislation will be forthcoming in that direction at this late date.

Company Finances

The financial structure of the company is not too simple. Funded debt of the parent and its subsidiaries totals $191,565,000 which is rather high in relation to the property account of $354,875,338. Though fixed charges have as a result not been covered by a wide margin (1.17 average for the last ten years), earnings have been sufficient to meet them. Outstanding bonds carry high coupon rates, and present difficulties as far as refunding is concerned because call premiums are high too. Still, as the system expands operations and increases earnings stability, the problem should be surmounted with considerable interest savings for the stockholders. The subsidiaries have some $88,283,500 in preferred stock outstanding, and the parent company has $20,000,000 in $6 preferred stock ahead of the common. Arrears on certain of these preferred issues of the operating companies act as a drag on the earnings of the common, but even so the net for the last five years (*Please turn to page* 124)



Courtesy American Water Works and Electric Co., Inc.

Springdale, Pa., Power Station, one of the best examples of "mine head" operation. The coal used as fuel is mined across the river, conveyed through a tunnel to the tipple at the left, then pulverized and blown into the fireboxes of the boilers.

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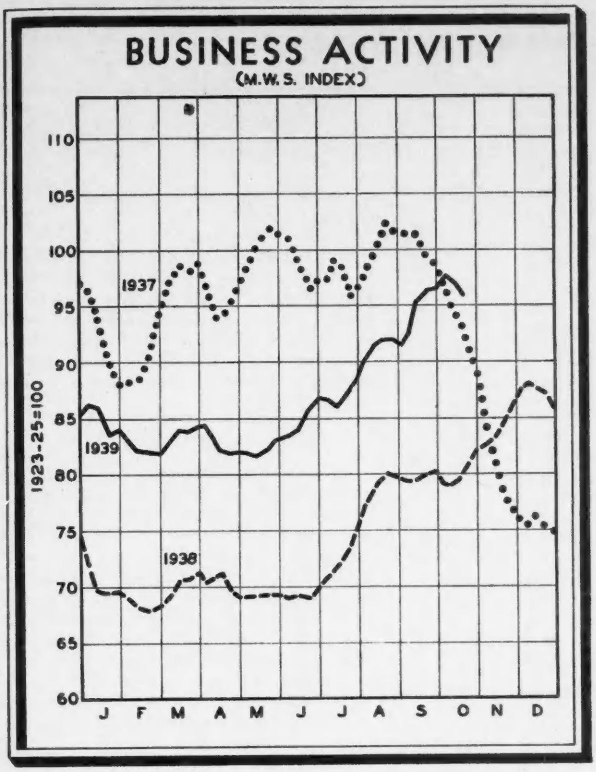


CONCLUSIONS

INDUSTRY — Inventory speculation subsides; but heavy backlogs sustain production.

TRADE—Exports rise substantially, despite shipping difficulties.

COMMODITIES—Prices continue to ease moderately.

MONEY AND CREDIT—Heavy Government financing operations have resulted in nervousness in Government bond market.

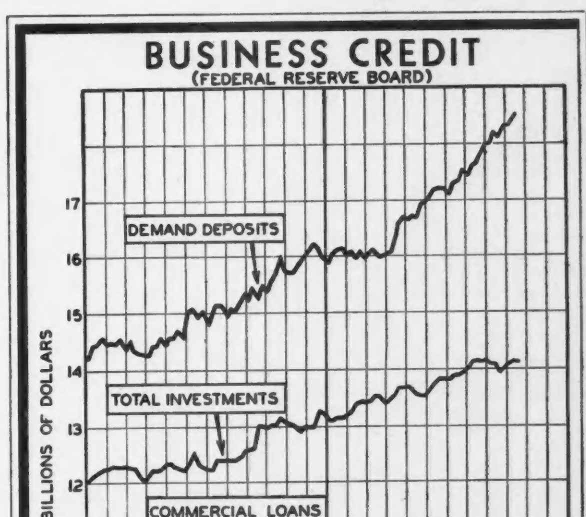
The Business Analyst

Though Steel operations, Cotton Cloth production and Carloadings continue to pick up at a somewhat better than normal seasonal rate, this publication's index of per capita **Business Activity** has receded about a point during the past fortnight—owing largely to the Chrysler strike. Had there been no strike, the general business level would have held practically stationary during the past three weeks, at about 97.4% of the 1923-5 average, a flattening out which merely reflects the subsidence of hysterical inventory building. Business Activity for October will probably average about 97, per capita basis—the equivalent of 113, without compensation for population growth (Federal Reserve basis).

* * *

In consequence of the late scramble for inventories and the current wave of expansion in plant facilities, manufacturers generally have sufficient backlogs, with such accretions as may materialize in the normal course of business, to sustain a high rate of operations well into the new year, during a season when most lines of production normally recede rather sharply. With labor troubles settled in the automotive industry, most of the better-known seasonally-adjusted business indexes should therefore reflect further irregular improvement during

(Please turn to next page)



Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION(a)	Sept.	110(pl)	103	90
INDEX OF PRODUCTION AND TRADE (b)	Sept.	90	86	79
Production	Sept.	88	85	78
Durable Goods	Sept.	73	68	55
Non-durable Goods	Sept.	96	94	91
Primary Distribution	Sept.	86	80	74
Distribution to Consumers	Sept.	97	93	86
Miscellaneous Services	Sept.	84	83	77
WHOLESALE PRICES (h)	Sept.	79.1	75.0	78.3
INVENTORIES (n. i. c. b.)				
Raw Materials	Aug.	89.6	94.0	109.6
Semi-Finished Goods	Aug.	106.7	110.8	114.7
Finished Goods	Aug.	111.7	110.8	111.8
COST OF LIVING (d)				
All items	Aug.	84.5	84.9	85.9
Food	Aug.	76.7	78.1	80.1
Housing	Aug.	86.3	86.3	86.6
Clothing	Aug.	71.9	71.9	73.4
Fuel and Light	Aug.	84.0	83.8	84.4
Sundries	Aug.	96.9	96.9	96.9
Purchasing value of dollar	Aug.	118.3	117.8	116.4
NATIONAL INCOME (cm)†	Aug.	$6,012	$5,393	$5,657
CASH FARM INCOME†				
Farm Marketing	Sept.	$781.0	$601.0	$718.0
Including Gov't Payments	Sept.	847.0	643.0	745.0
Total, First 9 Months	1939	5,441.0	......	5,357
Prices Received by Farmers (ee)	Sept.	98	88	95
Prices Paid by Farmers (ee)	Sept.	122	119	121
Ratio: Prices Received to Prices Paid (ee)	Sept.	80	74	79
FACTORY EMPLOYMENT (f)				
Durable Goods	Sept.	89.7	84.9	76.4
Non-durable Goods	Sept.	109.9	105.9	102.7
FACTORY PAYROLLS (f) (not adjusted)	Sept.	93.7	89.9	81.6
RETAIL TRADE				
Department Store Sales (f)	Sept.	92	89	86
Chain Store Sales (g)	Sept.	114.5	113.0	109.0
Variety Store Sales (g)	Sept.	119	116	115
Rural Retail Sales (j)	Sept.	125.4	131.1	114.6
Retail Prices (s) as of	Oct. 1	90.2	89.5	89.0
FOREIGN TRADE				
Merchandise Exports†	Sept.	$288.6	$250.8	$246.3
Cumulative year's total† to	Sept. 30	2,184.9	......	2,295.4
Merchandise Imports†	Sept.	181.5	175.8	167.6
Cumulative year's total† to	Sept. 30	1,620.6	......	1,434.9
RAILROAD EARNINGS				
Total Operating Revenues*	1st 8 mos.	$2,480,962	......	$2,250,992
Total Operating Expenditures*	1st 8 mos.	1,890,328	......	1,783,334
Taxes*	1st 8 mos.	233,178	......	226,096
Net Rwy. Operating Income*	1st 8 mos.	269,349	......	155,039
Operating Ratio %	1st 8 mos.	76.19	......	79.22
Rate of Return %	1st 8 mos.	1.72	......	0.99
BUILDING Contract Awards (k)	Sept.	$323.2	$312.3	$300.9
F. H. A. Mortgages				
Selected for Appraisal†	Sept.	91.7	98.5	98.4
Accepted for Insurance†	Sept.	62.0	62.3	68.3
Premium Paying†	Sept.	53.4	65.1	48.9
Building Permits (c)				
214 Cities†	Sept.	$84.5	91.8	$77.8
New York City†	Sept.	18.7	26.0	24.0
Total, U. S.†	Sept.	103.2	117.8	101.8
Engineering Contracts (En)†	Sept.	$209.3	$311.2	$289.7

PRESENT POSITION AND OUTLOOK

(Continued from page 113)

November and at least the early half of December, though at a slower pace than in September as more and more plants reach their current limits of practical capacity. From a longer range view-point, there can be no permanent ceiling to production in a country of almost limitless resources; since plant capacity is capable of sufficiently rapid expansion to meet all requirements of peace time consumption.

* * *

But in war time the planning of capacity presents almost insuperable difficulties, particularly under present circumstances which render it impossible to foresee even the approximate probable demand for export. If plant capacity is too small, there will be a ceiling to deliveries which will cause **prices** to advance and thereby start a vicious inflationary spiral fed by a superimposed demand from inventory speculators. If plant capacity is planned to meet promptly the maximum war time demands for exports, then peace will catch the United States with a considerable excess of plant capacity. In either event there will be post-war deflation. Probably the best solution, where feasible, would be to include the full cost of plant additions in the bill for war goods exported, and then dismantle redundant plants when peace comes. This would ameliorate, but not avert, the inevitable post-war depression.

* * *

Farm income, including Government subsidies, during September was 13.4% larger than a year ago, compared with the nine-months' gain of only 1.6%. Third quarter profits of the first 123 industrial corporations to report were 77% ahead of the like period of 1938. During September, **cost of living** rose 6.5% in England. September data for the U. S. are not yet available. **Department store sales** in the week ended Oct. 14 were 9% ahead of last year. For September, **department store sales** gained 8%, against 4% for nine months; **chain stores** increased 14.5%, against 10.8%; **variety stores** gained 9%, against 6.1%; **mail orders** rose 19.7% against 18.2%; while merchandise **exports,** under the stimulus of inventory hoarding abroad which paralleled the scramble in this country, exceeded last year by 15.7%, against a gain of only 8.7% in August.

* * *

Carloadings of around 16% above last year are at the best level in 9 years. Pres. Pelley, of the Atchison, says the roads will be able to handle expanding traffic without serious car shortages, upon installation of additional equipment now on order and to be ordered.

* * *

Construction contracts awarded during September in 37 States East of the Rockies were 7% above last year. Factory building contracts exceeded last year's volume by 100%. **Engineering construction** awards in the week ended Oct. 12 were 44% above last year, with private awards jumping 168%.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	Sept.	4,231	3,763	4,290
Pig Iron Production in tons★	Sept.	2,879	2,660	1,680
Shipments, U. S. Steel in tons★	Sept.	985	804	578
AUTOMOBILES				
Production				
Factory Sales	Sept.	188,751	99,868	83,534
Total 1st 9 Months	1939	2,459,875	......	1,518,814
Retail Sales				
Passenger Cars, U. S. (p)	1st 8 mos.	1,821,043	......	1,251,729
Trucks, U. S. (p)	1st 8 mos.	337,096	......	269,913
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	Sept.	330.5	317.0	300.3
Shipments, U. S. & Canada★ (tons)	Sept.	345.6	303.4	304.7
Mill Stocks, U. S. & Canada★ (tons)	Sept.	217.9	232.6	214.5
LIQUOR (Whisky)				
Production, Gals.★	Sept.	4,985	4,392	4,997
Withdrawn, Gals.★	Sept.	6,793	5,098	5,845
Stocks, Gals.★	Sept.	472,499	475,371	467,497
GENERAL				
Commercial Failures (c)	Sept.	758	859	866
Railway Equipment Orders (Ry)				
Locomotive	Sept.	52	5	5
Freight Cars	Sept.	24,231	360	1,079
Passenger Cars	Sept.	3	......	11
Cigarette Production†	Sept.	14,790	14,260	14,711
Bituminous Coal Production★ (tons)	Sept.	37,695	34,688	32,286
Boot and Shoe Production Prs.★	Aug.	42,949	33,618	42,252
Portland Cement Shipments★	Sept.	13,104	13,401	11,716
Paperboard, New Orders (st)	Aug.	454,817	382,682	361,323

PRESENT POSITION AND OUTLOOK

Despite the cut in production at Chrysler plants, retail sales of **automobiles** during the first 10 days of October were 96% ahead of the like period of last year, compared with a nine-months' gain of 42%. Twice as many direct orders for cars were booked at the recent National Automobile Show in New York City as were taken at the show last year, while attendance rose 30%. Part of this success was due to the lower admission charge of 40c, against 75c last year.

* * *

The business world is deeply disappointed to learn that one of its most reliable indicators of the demand for capital equipment, the **machine tool new orders index,** is to be discontinued after ten years of useful service as a business forecaster, owing to present difficulties in determining "firm orders." It will be replaced by a new, and less prophetic index, reflecting production activity of the industry. September machine tool orders were larger than for August; but not so heavy as earlier estimates indicated, owing to subsequent cancellations.

* * *

Bituminous coal Production in September was 16% above last year, and Anthracite output rose 40%. Many coal companies were in the black during the third quarter.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Oct. 21	95.8(pl)	96.8	80.8
ELECTRIC POWER OUTPUT				
K.W.H.†	Oct. 21	2,494	2,495	2,214
TRANSPORTATION				
Carloadings, total	Oct. 21	861,198	844,955	705,284
Grain	Oct. 21	44,578	38,793	46,496
Coal	Oct. 21	169,813	170,168	127,625
Forest Products	Oct. 21	39,231	38,432	32,446
Manufacturing & Miscellaneous	Oct. 21	351,541	337,844	284,188
L. C. L. Mdse	Oct. 21	160,299	160,683	159,438
STEEL PRICES				
Pig Iron $ per ton (m)	Oct. 24	22.61	22.61	20.61
Scrap $ per ton (m)	Oct. 24	20.875	21.00	14.17
Finished c per lb. (m)	Oct. 24	2.236	2.236	2.286
STEEL OPERATIONS				
% of Capacity week ended (m)	Oct. 28	92.0	91.0	54.0
CAPITAL GOODS ACTIVITY (m) week ended	Oct. 21	101.5	101.4	73.2
Petroleum				
Average Daily Production bbls.★	Oct. 21	3,772	3,714	3.272
Crude Runs to Stills Avge. bbls.★	Oct. 21	3,650	3,600	3,251
Total Gasoline Stocks bbls.★	Oct. 21	72,122	71,263	69,209
Gas Fuel Oil Stocks, bbls.★	Oct. 21	110,136	109,719	120,495
Crude—Mid-Cont. $ per bbl	Oct. 27	1.02	1.02	1.02
Crude—Pennsylvania $ per bbl	Oct. 27	1.73	1.73	1.28
Gasoline—Refinery $ per gal	Oct. 27	0.06⅞	0.06⅞	0.06⅛

PRESENT POSITION AND OUTLOOK

Owing largely to labor trouble in the automobile and accessories industries, **electric power output** has flattened out during the past fortnight, with the margin of increase over last year narrowing to around 12%. This break in the marked uptrend of electric power production is only temporary, and new equipment is still being ordered in large volume to forestall the development of "bottlenecks."

* * *

Under pressure of customers for prompt deliveries, the **steel operating rate** continues to expand, though at a slower pace; although normally a seasonal peak is reached early in October. With composite prices for finished steel only 3% below last year, earnings of the industry should pick up sharply in the fourth quarter, despite somewhat high costs of raw material. Owing to Government opposition, the larger steel companies are reluctant to raise prices for first quarter delivery; but smaller independents are not under such close surveillance. Foreign orders will be heavy next year, if the war continues.

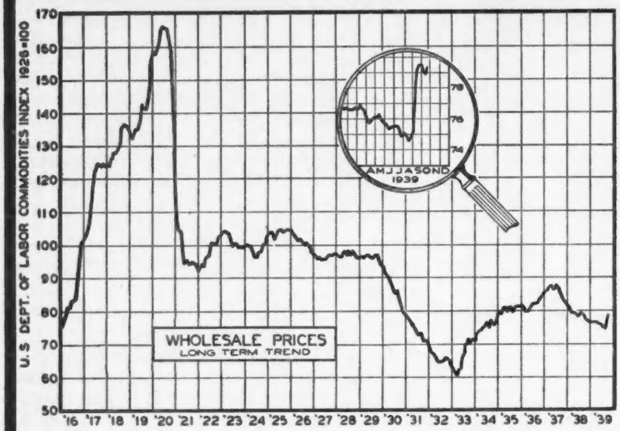
* * *

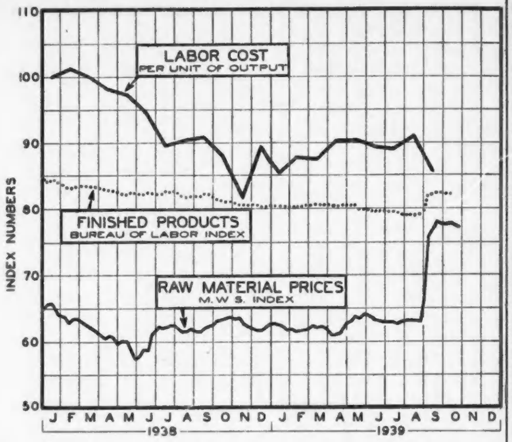
Crude oil production and **gasoline** stocks are mounting so rapidly that a new outbreak of price cutting is in the making unless export shipping difficulties are cleared up soon.

†—Millions. ★—Thousands. (a)—Federal Reserve 1923-25—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreets. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (En)—Engineering News Record. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U.S.B.L.S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. In. Conf. Bd. 1936—100. (p)—Polk estimates. (pl)—Preliminary. (r)—Revised. (Ry)—Railway Age. (s)—Fairchild Index, Dec., 1930—100. (st)—Short tons.

Trend of Commodities

Although most commodities have drifted downward over the past fortnight, there has been nothing in the price action to suggest that this process of marking-down is anything more than a normal aftermath following in the wake of the substantial gains registered immediately after the beginning of European hostilities. Buyers have turned cautious apparently waiting some indication of the vitality of the current rise in business. Despite all the talk of heavy inventory buying, reliable information indicates that it has occurred chiefly in primary materials, and has by no means attained the proportions of 1936-37. The probabilities are that commodity prices will continue a process of leveling off; that they are likely to show a severe reaction, however, appears precluded by such factors as a strong statistical background (grains excepted) rising production costs and higher shipping charges on import commodities.





Changes in Major Commodity Price Groups for the Fortnight Ended Oct. 21, 1939

Farm Products	67.5	up 0.7	Metals	96.3	up 1.2
Foods	73.2	up 0.3	Building Material	92.5	up 0.7
Hides and Leather	105.4	up 0.2	Chemical	78.0	up 0.1
Textiles	74.8	up 1.0	Housefurnishings	89.2	up 0.1
Fuel and Lighting	74.6	down 0.2	Miscellaneous	77.2	up 0.1

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
October	Oct. 28	8.45	8.33	7.82
December	Oct. 28	9.29	9.20	8.53
Spot	Oct. 28	9.31	9.20	8.88
(In bales 000's)				
Visible Supply, World	Oct. 28	(X)	(X)	......
Takings, World, wk. end	Oct. 28	(X)	(X)	......
Total Takings, season Aug. 1 to	Oct. 28	(X)	(X)	......
Consumption, U. S.	Sept.	625	628	533
Exports, wk. end	Oct. 27	182	248	82
Total Exports, season Aug. 1 to	Oct. 27	1,558	1,376	1,004
Government Crop Est. (final)	Oct. 1	11,928	12,380	11,943(ac)
Active Spindles (000's)	Sept.	22,232	22,012	22,184
WHEAT				
Price cents per bu. Chi. closing				
December	Oct. 28	85½	85⅜	64⅞
May	Oct. 28	85⅞	84¾	66¾
Exports bu. (000's) since July 1 to	Oct. 21	37,083	35,093	57,068
Exports bu. (000's) wk. end	Oct. 21	1,990	1,644	7,256
Visible Supply bu. (000's) as of	Oct. 21	137,982	140,319	126,587
Gov't Crop Est. bu. (000's)	Oct. 1	739,445	736,115	930,801(ac)
CORN				
Price cents per bu. Chi. closing				
December	Oct. 28	50⅛	48⅞	44⅞
May	Oct. 28	52⅝	51¾	48½
Exports bu. (000's) since July 1 to	Oct. 21	2,945	2,565	45,126
Visible Supply bu. (000's) as of	Oct. 21	21,510	18,143	16,728
Gov't Crop Est. bu. (000's)	Oct. 1	2,532,417	2,523,092	2,542,238(ac)

PRESENT POSITION AND OUTLOOK

Cotton. Cotton prices eased somewhat toward the close of last week, prices having been influenced by reports from Washington that official approval of the loan program for the 1939-40 crop is being withheld because of objections by the general accounting office that a cotton loan at this time is not mandatory. Exports continue to hold up well. Estimates of mill consumption by the Agricultural Marketing Service indicate a possibility of 750,000 bales in October, the largest for that month in history.

* * *

Wheat. Reports near the close of last week of much needed rains in some areas brought some speculative selling. For the most part, however, reports of growing conditions for winter wheat were more pessimistic than otherwise. Reports of recent substantial sales to England by Australia lend weight to the belief that the carry-over of old crop wheat on Dec. 1, will be small. Bureau of Agricultural Economics estimates that world wheat stocks on July 1, 1940 will show an increase of 240,000,000 bushels to 1,440,000,000 bushels, a new record high.

* * *

Corn. Rapid harvesting of the new crop and a continued shortage of crib space is forcing old corn on the market with a corresponding depressing influence on prices. Additional crib space for 100,000,000 bushels recently provided in Iowa by the Government is apparently insufficient.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	Oct. 28	12.50	12.50	12.50
f. a. s. N. Y.	Oct. 28	13.00	12.50	......
Refined Prod., Domestic (tons)	July	57,339	61,719	35,596
Refined Del., Domestic (tons)	July	59,681	53,573	48,071
Refined Stocks, Domestic (tons)	July 31	316,543	335,017	339,997
Refined Prod., World (tons)	July	158,236	173,205	139,483
Refined Del., World (tons)	July	181,487	180,433	177,580
Refined Stocks, World (tons)	July 31	490,419	513,670	523,196
TIN				
Price cents per lb., N. Y. Spot	Oct. 28	55.50	56.00	46.12
Tin Plate, price $ per box	Oct. 28	5.00	5.00	5.00
World Visible Supply† as of	Sept. 30	31,168	26,338	40,544
U. S. Deliveries†	Sept.	5,050	6,295	4,465
U. S. Visible Supply† as of	Sept. 30	13,494	8,967	10,095
LEAD				
Price cents per lb., N. Y.	Oct. 28	5.50	5.50	5.10
U. S. Production (tons)	Sept.	39,253	39,000	27,508
U. S. Shipments (tons)	Sept.	59,554	45,025	39,026
Stocks (tons) U. S., as of	Sept. 30	97,702	117,985	131,476
ZINC				
Price cents per lb., St. Louis	Oct. 28	6.50	6.50	5.05
U. S. Production (tons)	Sept.	42,225	40,960	32,328
U. S. Shipments (tons)	Sept.	69,424	49,928	43,582
Stocks (tons) U. S., as of	Sept. 30	95,615	122,814	130,743
SILK				
Price $ per lb. Japan xx crack	Oct. 28	3.42	3.46½	1.88½
Mill Dels. U. S. (bales), July 1 to	Sept. 30	96,098	59,229	109,941
Visible Stocks N. Y. (bales) as of	Sept. 30	27,760	25,060	40,711
RAYON (Yarn)				
Price cents per lb	Oct. 28	56	54	51
Consumption	Sept.	32.8	31.3	33.1
Stocks as of (a)	Sept.	13.0	18.9	34.6
WOOL				
Price cents per lb. tops, N. Y.	Oct. 28	1.17	1.18	.84
HIDES				
Price cents per lb. No. 1 Packer	Oct. 28	15.00	16.00	13.50
Visible Stocks (000's) as of	Sept. 1	12,612	12,906	13,349
No. of Mos. Supply as of	Sept. 1	6.8	7.6	7.7
RUBBER				
Price cents per lb	Oct. 28	20.05	20.87	16.80
Imports, U. S.†	Sept.	41,939	38,045	37,374
Consumption, U. S.†	Sept.	50,150	50,481	37,823
Stocks U. S. as of	Sept.	150,171	161,358	268,094
Tire Production (000's)	Sept.	4,985	5,492	3,916
Tire Shipments (000's)	Sept.	5,565	4,919	3,888
Tire Inventory (000's) as of	Sept.	8,335	8,891	8,022
COCOA				
Price cents per lb. Dec	Oct. 28	4.80	5.07	4.67
Arrivals (thousand bags)	Sept.	202	372	287
Warehouse Stocks (thousand bags)	Oct. 27	1,070	1,086	951
COFFEE				
Price cents per lb. (c)	Oct. 28	7.625	7.875	8.25
Imports, July 1 to (bags 000's)	Sept. 30	2,931	1,868	3,369
U. S. Visible Supply (bags 000's)	Oct. 1	1,460	1,501	1,478
SUGAR				
Price cents per lb.				
Raw	Oct. 28	3.10	3.30	3.10
Refined (Immediate Shipment)	Oct. 28	5.25	5.25	4.75
U. S. Deliveries (000's)*	1st 9 mos.	5,436(pl)	......	4,927
U. S. Stocks (000's)* as of (rr)	Sept. 30	487.6	......	701.8

PRESENT POSITION AND OUTLOOK

Copper. In the absence of regular statistics it is becoming increasingly difficult to appraise the copper situation. Some talk is being heard of higher prices and it is difficult to see how prices are going to be restrained if the war continues. During the past week it was reported that Japan had purchased copper here and had paid 13 cents a pound. Production is being increased but supplies for early shipment are tight.

* * *

Tin. Market has quieted down considerably; demand is light; but offerings are not heavy. Reports are current that the British government has declined to issue permits for any tin to be exported from the United Kingdom during December. If such action is taken it may be only temporary.

* * *

Lead. Demand has dropped off somewhat. Supplies appear ample although by no means excessive. Prices continue firm and unchanged. Deliveries in September were the largest since March, 1937.

* * *

Zinc. Zinc market has turned very dull with buying interest virtually at a standstill. For the present no early buying movement is looked for. Prices firm and unchanged.

* * *

Silk. The sustained uprush in silk prices reflects the tight domestic supply situation, which has overshadowed the threat of a possible penalty duty of 10% when the Japanese trade treaty expires. The domestic situation also overlooks a 20% increase in this year's cocoon crop. Japanese production is being seriously handicapped by a labor shortage and insufficient electrical power.

* * *

Rayon. A leading producer has advanced prices on December business from 2 to 10 cents a pound, the latter applying to 45 denier sizes, and the former for the 100-150 denier grades.

* * *

Wool. Prices have not reflected the favorable news from textile circles. Unfilled orders for both men's and women's wear fabrics are substantially larger than a year ago.

* * *

Hides. Futures have been moderately reactionary. Statistically, however, the outlook continues very promising. Trade reports are excellent. Tanneries are very active, shoe production is being stepped up and retail shoe sales are doing well.

* * *

Rubber. Tire shipments in September showed a gain of 13.1% over August, and 43% over the same month a year ago. Replacement demand continues active and manufacturers inventories were reduced 6.3% from the August level.

* * *

Cocoa. After the first uprush, prices have for the most part continued reactionary. Apparently the large world supplies have for the time being overshadowed the influence of war. Stocks in New York have declined steadily but are still regarded as high in relation to normal supplies.

* * *

Sugar. With war temporarily in the background, raw futures have lost all the gains made since the beginning of September. Domestic imports are now unrestricted and world supplies are large. Refined prices have been lowered and further cuts may be in the offing.

†—Long tons. *—Short tons. (a)—Million pounds. (ac)—Actual. (c)—Santos No. 4 N. Y. (pl)—Preliminary. (rr)—Raw and refined. (X)—No foreign statistics allowed to be sent from abroad because of war conditions.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Oct. 27	1¼%	1¼%	1¼%
Prime Commercial Paper	Oct. 27	5/8-1%	5/8-1%	5/8-1%
Call Money	Oct. 27	1%	1%	1%
Re-discount Rate, N. Y.	Oct. 27	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Oct. 14	2,493	2,771	2,377
Cumulative year's total to	Oct. 14	99,122	......	92,182
Bank Clearings, N. Y.	Oct. 14	2,472	3,156	3,441
Cumulative year's total to	Oct. 14	139,144	......	142,150
F. R. Member Banks				
Loans and Investments	Oct. 18	22,563	22,568	21,314
Commercial, Agr., Ind. Loans	Oct. 18	4,286	4,288	3,900
Brokers Loans	Oct. 18	548	530	665
Invest. in U. S. Gov'ts	Oct. 18	8,574	8,559	8,074
Invest. in Gov't Gtd. Securities	Oct. 18	2,224	2,240	1,684
Other Securities	Oct. 18	3,342	3,361	3,286
Demand Deposits	Oct. 18	18,567	18,451	15,755
Time Deposits	Oct. 18	5,239	5,242	5,154
New York City Member Banks				
Total Loans and Invest.	Oct. 25	8,614	8,507	7,885
Comm'l., Ind. and Agr. Loans	Oct. 25	1,663	1,662	1,444
Brokers Loans	Oct. 25	467	430	571
Invest. U. S. Gov'ts	Oct. 25	3,385	3,305	2,918
Invest. in Gov't Gtd. Securities	Oct. 25	1,119	1,120	806
Other Securities	Oct. 25	1,174	1,191	1,193
Demand Deposits	Oct. 25	8,356	8,256	6,732
Time Deposits	Oct. 25	662	654	618
Federal Reserve Banks				
Member Bank Reserve Balance	Oct. 25	11,950	11,907	8,740
Money in Circulation	Oct. 25	7,302	7,330	6,654
Gold Stock	Oct. 25	17,039	16,997	14,051
Treasury Currency	Oct. 25	2,929	2,927	2,749
Treasury Cash	Oct. 25	2,230	2,216	2,767
Excess Reserves	Oct. 25	5,530	5,510	3,280

NEW FINANCING (millions of $)		Latest Month	Last Month	Year Ago
Corporate	Sept.	90.2	340.7	150.1
New Capital	Sept.	16.0	25.4	85.0
Refunding	Sept.	74.2	315.3	65.1

COMMENT

The latest weekly statement of **New York City Member Banks** disclosed an increase of $107,000,000 in total loans and investments, with the result that the figure is now at the highest point in two and a half years, and within about $450,000,000 of the 1936 peak. The gains in the most recent week were attributable chiefly to Treasury financing operations. The gain of $37,000,000 in brokers' loans reflects not an increase of public participation in the securities markets but increased borrowings by dealers in Government obligations, following the Treasury's exchange offer for December notes. Holdings by New York City banks of Treasury bills increased $53,000,000 to a new high, and Treasury notes rose $38,000,000. On the other hand, local banks continue to liquidate longer term Government obligations, holdings having been reduced $26,000,000 during the past month. Loans to commerce, industry and agriculture rose $1,000,000 in the latest week, whereas in the preceding week there was a decline of $3,000,000.

* * *

So frequent and substantial in size have been the recent Treasury financial offerings that dealers have become somewhat bewildered. Last week the announcement that $250,000,000 of new money would be raised through the sale of R F C notes was followed by a decline in the Government bond market. Over a period of ten days the Treasury has refinanced $206,000,000 C.C.C. notes and $526,000,000 of its own December notes. In addition weekly financing of $100,000,000 maturing discount bills were being augmented by $50,000,000 of extra bills. A lull in Treasury operations would do much toward restoring a firmer tone to the Government bond market.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues (1925 Close—100)	1939 Indexes High	Low	Oct. 21	Oct. 28
316 COMBINED AVERAGE	73.1	50.7	71.9	71.9
5 Agricultural Implements	119.9	81.4	115.4	113.1
6 Amusements	43.2	26.8	29.0	31.5
15 Automobile Accessories	92.9	55.2	89.9	92.9H
12 Automobiles	12.8	8.1	12.4	12.3
11 Aviation (1927—100)	196.0	128.2	189.2	196.0R
3 Baking (1926 Cl.—100)	15.4	11.5	12.5	12.6
3 Business Machines	183.9	114.0	124.6	128.9
9 Chemicals	187.2	123.7	178.7	179.6
20 Construction	47.5	27.7	36.2	37.2
5 Containers	242.6	165.0	238.7	231.4
9 Copper & Brass	124.4	71.2	118.7	116.2
2 Dairy Products	32.1	23.6	30.0	30.3
8 Department Stores	23.9	16.5	23.2	23.7
7 Drugs & Toilet Articles	53.5	40.4	47.3	48.1
2 Finance Companies	312.0	219.4	272.4	267.1
7 Food Brands	103.3	69.1	98.4	96.7
3 Food Stores	48.4	33.3	46.5	47.2
4 Furniture & Floor Covering	72.1	47.1	58.4	60.5
3 Gold Mining	1301.2	884.6	946.0	975.0
6 Investment Trusts	28.2	19.1	26.3	25.9
4 Liquor (1932 Cl.—100)	193.1	133.0	164.9	168.3
9 Machinery	129.0	83.3	123.0	122.0

(Nov. 14, 1936 close—100)	1939 Indexes High	Low	Oct. 21	Oct. 28
100 HIGH PRICED STOCKS	72.77	53.58	70.76	70.69
100 LOW PRICED STOCKS	66.79	44.98	65.28	64.68
2 Mail Order	93.0	69.2	92.6	93.0H
4 Meat Packing	65.4	41.5	61.0	60.7
14 Metals (non-Ferrous)	192.9	122.0	182.1	183.2
2 Paper	13.9	7.5	13.6	13.8
24 Petroleum	101.0	74.3	96.1	94.6
18 Public Utilities	62.6	44.9	57.1	57.5
4 Radio (1927 Cl.—100)	17.0	10.0	12.3	12.0
9 Railroad Equipment	65.1	33.7	62.9	60.9
22 Railroads	20.5	10.9	18.6	18.3
2 Realty	7.9	2.6	3.0	2.8
2 Shipbuilding	82.7	45.1	82.0	81.0
13 Steel & Iron	105.6	60.4	102.7	101.1
2 Sugar	39.0	13.3	30.7	29.5
2 Sulphur	176.3	113.0	174.6	172.1
3 Telephone & Telegraph	53.2	40.3	51.9	51.5
4 Textiles	62.4	27.4	60.4	60.5
4 Tires & Rubber	20.0	13.0	17.2	17.0
4 Tobacco	86.5	76.2	81.4	81.7
4 Traction	39.1	21.9	32.5	33.3
4 Variety Stores	245.7	189.3	239.2	245.7H
20 Unclassified (1938 Cl.—100)	112.0	73.1	109.0	106.8

R—New HIGH record since 1932. H—New HIGH since 1937.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

Remington Rand, Inc.

What do you advise on 200 shares of Remington Rand common purchased at 16? I have heard that large foreign orders were received but this does not seem to be reflected in recent action of the shares. Are domestic sales of typewriters running ahead of 1938 sales? Are European plants still operating?—Dr. C. C. B., Phoenix, Ariz.

Remington Rand may be somewhat slow to respond marketwise to improving business conditions due to uncertainty in the outlook caused by the war in Europe. Normally about 35% of sales and 45% of profits come from abroad. Foreign government orders for tabulating machines manufactured by this concern have taken a substantial rise since the outbreak of war and the company is in a good position to increase sales to South America and other countries, which market had formerly been dominated by German manufacturers. This situation is expected to prevail for the duration of the war, at least, but foreign exchange fluctuations may not be to the company's advantage. In addition, the concern has sizable investments abroad and these may be in danger. On the other hand, domestic sales of the diversified line of typewriters and supplies, filing and visible index equipment manufactured by this company are understood to be showing considerable gains over the corresponding period of last year. Operations in the June quarter of the current fiscal year resulted in a deficit of 4 cents per share, which compare with a deficit of 7 cents a share for the corresponding period last year. It is therefore likely that earnings for the fiscal year to end in March of 1940 will be at least moderately higher than the 59 cents per share earned in the preceding fiscal year. Finances of the company, according to the balance sheet on June 30, 1939, were very satisfactory, current assets totalling $28,382,773, against current liabilities of $3,940,-310, with cash alone somewhat in excess of total current liabilities. While uncertainties in the outlook naturally lead to some doubt as to maintenance of the current dividend rate of 20 cents per share quarterly, the strong financial position leads to the belief that disbursements will be continued at current levels for the time being, at least. While, as pointed out above, the stock may be somewhat slow to respond to improving market conditions, the longer term outlook for this well entrenched manufacturer of office supplies is believed to be sufficiently optimistic to warrant retention of your holdings at these levels.

Mid-Continent Petroleum

Please give me your current appraisal of Mid-Continent Petroleum of which I own 150 shares at 28½. Are sales through service stations increasing? What about foreign business? What is the prospect for third and fourth quarter earnings? Will the continuance of war abroad lift oil prices materially in the near future?—Mrs. C. L. Z., Butte, Mont.

Earnings of Mid - Continent Petroleum Corp. were equivalent to 34 cents per share for the first six months of 1939, which compared with earnings of 56 cents a share in the corresponding period of last year. It is noteworthy, however, that the second quarter of this year showed moderate improvement over the second quarter of the preceding year, earnings for those periods being reported at 36 cents per share, against 31 cents per share, respectively. Improvement in the second quarter was the result of increased production of crude oil and better prices for refined products. This improvement is expected to continue over coming months and it has been estimated that profits for the full year will approximate 75 cents per share, which would compare with 56 cents per share for 1938. Sales through the company's own bulk and service stations in the first half of the year were at new record levels in each month of 1939 over the correspond-

When *Quick* Service Is Required, Send Us a Telegram Prepaid and Instruct Us to Answer Collect.

ing months of the previous year. The statistical position of the industry has improved and higher prices later on should enable more satisfactory earnings over coming months. Mid-Continent, while a comparatively small unit, is a well-knit organization and in a good position to take full advantage of this expected improvement. Capitalization is simple, the 1,857,912 shares of capital stock outstanding representing the entire capitalization. Finances are strong and in consideration of prospective earnings over the coming months, the stock of this concern would seem to possess good speculative possibilities and we recommend its retention.

Twentieth Century-Fox Film Corp.

To what extent will Twentieth Century-Fox Film earnings be curtailed by loss of foreign markets due to war? Am still holding 50 shares of the common purchased at about 27¾ and would appreciate your advice. Have just heard the company decided to omit the 50-cent dividend on the common.—Mrs. S. S., Tacoma, Wash.

Twentieth Century-Fox Film Corp. is one of the leading organizations in the motion picture field. The company is engaged on a world-wide scale in every phase of the business. It is said that under normal conditions about one-third of film rentals is derived from foreign sources. An indirect interest is held in Gaumont-British Corp., Ltd., which operates a large chain of theaters in England. A substantial minority interest is held in National Theaters Corp., operator of some five hundred motion picture houses, largely located in the Pacific Coast region. Earnings depend largely upon the ability of the company to produce pictures that will meet good public reception. Naturally, the level of public purchasing power is also an important earnings determinant. The operating record of the concern has been comparatively satisfactory since formation late in 1935. Net income in 1938 equalled $3.35 a common share, as against $4.12 a share in 1937, after foreign exchange adjustments. On December 31, last, current assets of $26,566,153, which included cash of $5,736,972, exceeded current liabilities of $5,203,712 which included notes payable of $1,000,000, by $21,362,441. The 1,741,984 shares of no par value common stock are preceded in the capital structure by only 938,745 shares of $1.50 cumulative preferred stock, which is redeemable at $35 a share. These latter shares are convertible into 1¼ common shares. Dividends have been omitted and resumption is uncertain. Operations in the twenty-six weeks ended July 1, last, resulted in profits equivalent to 93 cents per common share as compared with $1.56 a share in the approximately similar interval of 1938. Studio economies have been effected and this, together with increased income possible from domestic theater holdings, will be of benefit in offsetting reduced foreign revenues. Income in the current half year will be lower but it is probable that by 1940 profits will be on the uptrend. Present prices for the shares would appear to adequately discount the uncertainties involved and continued speculative retention is advised.

Symington-Gould Corp.

News that Symington-Gould has cut first half losses sharply seems to have had little effect on the common quotations; now around the 10½ level which I paid for the shares last year. How do you account for this apparent lack of response? Do you feel that the brighter rail-equipment outlook warrants holding these shares? — D. L. Y., Harrisburg, Pa.

Symington-Gould Corp. derives by far the largest portion of its revenues from the sale of heavy castings, including couplers, side-frames, draft gears and bolsters for car and locomotive use, to the railroads and car builders. Earnings which follow the general trend of railroad equipment purchases are subject to rather sharp fluctuations. Organized in 1936 as successor, through reorganization, to two units long established in the field, profits in the year ended January 31, 1937, equalled 80 cents per common share. Net was increased to the equivalent of $1.29 a share in the following year, only to recede to the equal of a loss of 68 cents a share in the term ended January 31, 1939. Dividend payments omitted since 1937 likely will be resumed as soon as earnings warrant. The working capital position is satisfactory as was shown by the balance sheet of January 31, 1939. Current assets, including cash of $376,556, amounted to $1,555,294 as of that date, while current liabilities, including notes payable of $200,000, totalled $474,362. The concern is simply capitalized, there being only 801,994 shares of $1 par value capital stock outstanding. The loss in the six months ended July 31, last, was sharply reduced and equalled only 2 cents a share as compared with a deficit of 52 cents a share in the similar year earlier interval. Car loadings and earnings of railroads are scoring sharp gains in line with generally improved economic conditions in this country and the war abroad. As a result, equipment buying has recently been resumed on a large scale. A continuation of the trend would probably enable the company to boost earnings rather sharply above present levels, which are just about at the break-even rate. Present quotations for the shares, sharply above the lows of the year, would not appear to bear out your impression that the stock has been a relatively backward market performer. Considering the rather favorable outlook for rail earnings and equipment purchases, the shares appear sufficiently attractive at this time to warrant their continued speculative retention.

Western Union Telegraph Co.

I could have taken a profit on 102 shares of Western Union, bought last year at 34 but felt that the rising wire traffic due to war, would carry the stock higher. Now it is selling about 2 points below my purchase price. Is the outlook sufficiently encouraging to hope for substantial price appreciation?—E. J. C., Toronto, Ont., Canada.

Western Union Telegraph Co. is the most important factor in the land telegraph field, in this country. It is also interested in the operation of cables to Europe and the West Indies as well as tickers given over to the printing of security and commodity prices. Revenues of the concern tend to follow rather closely the trend of general business activity. Competitors who have recorded good gains in recent years include the long-distance telephone, the radio and air-mail. After operating at a loss in 1932, revenues expanded consistently until 1936, when increased operating costs, particularly wages, made themselves felt and earnings then declined through 1938 when a loss of $1.57 per capital share was incurred, as compared with actual profits of $3.18 a share in 1937. Resumption of

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Owens-Illinois Glass

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stands as a tribute to its management.

However, there is one highly important fact to remember, and an analysis of the trend of the company's profit margin from 1932-1938 brings this out. Profit margins during these years ran about as follows: 1938—7.1 per cent; 1937—10.2 per cent; 1936—12.7 per cent; 1935—13.6 per cent and 1934—12.6 per cent. Prior to the latter year the company did not report its volume of sales, so that it is not possible to calculate the profit margin further back than this. The foregoing figures present interesting possibilities. In the first place during most of this period the activities of this company were considerably enlarged principally through acquisition of outside concerns, coupled as it was with a rapid broadening of the market for its output largely as a result of the repeal of prohibition. Is there not the possibility that from here on a slower rate of growth may be witnessed? As a matter of fact this inference would appear to be superficially correct, if we had not reviewed the progressive policies dominant in the organization's management. However, it should not be overlooked that the latter half of 1937 and goodly part of 1938 were mediocre years so far as business activity throughout the country was concerned. Naturally these periods lowered the sales volume and therefore profit margins of Owens-Illinois. Therefore the investor must rely for a duplication of the past growth upon such new products as fibreglass and glass blocks to mention only two of them. Thus the conclusion appears warranted that while a certain inherent long term growth lies ahead the speculative growth, i.e. a development at a greater than average rate, depends upon the success of the new products now being introduced.

That success is being achieved is indicated by the report for the 12 months ended September 30, 1939, when $2.81 was reported on the 2,661,204 shares of outstanding common stock compared with $1.91 in the same 12 months period of 1938. Though this method of reporting earnings on an accumulated 12 months basis is often confusing, so that conclusions derived therefrom must not be accepted as final, it is interesting to note that the profit margin rose to 9.3% contrasted with 6.5% for the 1938 period. The cause of this is largely a result of a decline of cost of sales in relation to net sales, and in the 12 months ended September 30, 1939 this ratio stood at approximately 71% as against 76% in the same part of 1938. At the same time sales gained almost 5%. These figures therefore again tend to confirm the efficient and progressive operations of the company.

As I See It!

(*Continued from page* 71)

on the western front—Hitler's failure to make good his threat to launch "a war in earnest"—and the reliance on the guns of diplomacy to win the decisive battles.

The other probability would be the evolution of Germany into an independent communist state, and to that end she is concentrating her people and her resources. Startling as this may seem, no man can say that it is not a possibility since it is becoming more and more evident that we are not witnessing a war of ideology, but a war of economics. Hitler faced with the possibility of a long war and a Germany destroyed, would prefer to ally himself politically with Stalin if this meant peace and the opportunity to develop the vast resources of Russia with the resulting benefits to the Reich which "must export or die."

In his repatriation plan Hitler has taken an irrevocable step which has brought catastrophe and tragedy to the proudest members of the German race. Already Hitler's deal with Stalin has alienated Germans everywhere; for more than any other people the Germans have been opposed to communism because of their strong property instincts and sense of order. By bringing communism therefore into Europe, Hitler has betrayed their trust and created a revulsion of feeling among the strongly entrenched Germans now crushed and defeated. From this time on these minorities, which in every country form the nucleus of a strong Nazi party, will be easily stripped of their power by the various governments who have already lost their fear of Hitler.

So strong were these German minorities in the Baltic that from their strongholds they were able to dominate Russia commercially, socially and culturally. And their power, position and wealth caused them to be feared and hated by the native populations whom they treated more as servitors.

In 1934 when the Reich was weak, the Baltic States—Lithuania, Latvia and Estonia—instituted measures to wrest control from German hands. I was in Riga during the period of this liquidation which was spreading over Europe and causing great alarm in Germany. But later when Hitler became all-powerful, first as a result of his undisputed entry into the Rhineland, then through unopposed annexation of Austria, these German minorities came back into power and formed strong Nazi parties in every state, abetted and supported by Berlin — which promised them newer and greater horizons of wealth and power.

Now as a result of the Hitler-Stalin "partnership"—which will end the moment either "partner" can make a better deal—the Baltic Germans are moved like pawns back within the Reich, there to be fed into the army, settled in the former Polish Corridor or put to whatever other uses will serve the plans of the Nazi bureaucracy.

With the Baltic states now out of Germany's orbit and within that of Russia, the next big question marks on the map of Europe center in the Scandinavian peninsula, of which Finland is really part, and in the Balkans, especially Rumania. These areas are now the key prizes in the diplomatic war, which continues much more actively than the military war.

Meanwhile, as each event sets up a new chain of forces that Hitler did not originally contemplate, it becomes more and more evident that England and France have the situation well in hand, as I surmised in my editorial in the October 7th issue of this magazine, and that Russia was apparently following a definite plan when she occupied the greater part of Poland and established herself in the Baltic. By these two moves she succeeded in protecting herself against a German thrust to

the east which had been her objective in her earlier discussions with France and England.

It is interesting to note that Russian progress in Poland and in the Baltic was unopposed by England or France. Apparently, that was the extent of the bargain, for when Russia tried to include Finland, she was stopped because Stalin in control of the Scandinavian countries would be a direct menace to England herself. I believe that to President Roosevelt will go the credit for having saved Stalin's face and given Russia an easy way out of her dilemma, as I do not believe that Stalin welcomed the risk of a war at this time, —or the loss of his newly won prestige.

And now the Russian threat to Bessarabia has been blocked by the Anglo - French - Turkish agreement. Evidently, it was not intended that Russia should go farther south. You cannot blame Stalin for trying, as possession of Bessarabia would have given him control of the mouth of the Danube—of great assistance in a possible war with Germany. Nor is Russia likely to risk a war over Bessarabia; while her continued friendliness with Turkey would seem to say she does not intend to fight on the side of the Reich (the sharp anti-British comments of the Isvestia notwithstanding).

Despite a weak internal economy, Stalin is making the most of his opportunities in foreign policy. The most certain thing of all is that he does not want to risk war—even a little war.

Bigelow-Sanford Mohawk Carpet

(*Continued from page* 109)

distinction. Bigelow has a small issue of 6% par $100 non-redeemable preferred stock ahead of its common shares, but total dividend requirements are only equal to about 50 cents per share on the common shares. Mohawk has neither funded debt nor preferred stock outstanding. There are 73,350 shares of Bigelow held by Stephan Sanford and Co. which, together with $5,000,000 6% serial notes, represented payment for their assets under a purchase agreement consummated in 1929. These serial notes have since been retired.

Current returns of the two companies show marked improvement. For the first six months Mohawk reported net profits of $516,832 equal to 95 cents per share against a net loss of $698,372 per share for the same period of last year. And Bigelow earned $617,046 equal to $1.71 per share for the first half against a net loss of $1,565,224 for the first half of last year.

As prices for raw material rose the companies increased finished carpet prices in the same measure. The favorable statistical position of the industry has made this possible without disrupting the market. And to date three such advances have been posted without any signs that demand has slackened. Following this practice of adjusting price levels on a scale calculated to maintain a reasonable profit margin rather than exploit the possibilities of the present situation to the utmost will pay dividends in the long run for it insures smoother distribution to the ultimate consumer. An important factor in the volume of business both companies are now enjoying are the orders from hotels. With business better than it has been for years in most parts of the country, the national hotel associations are calling attention to the appearance of the halls, lobbies, and rooms of their members stressing modernization as a sure way of pleasing guests. The result is that orders for thousands of yards of carpeting have been placed. Naturally these go through as wholesale contracts and react immediately to changes in price.

Bigelow-Sanford is currently selling around 28 and Mohawk Carpet is quoted around 18. Certainly neither stock seems overpriced in terms of earnings and dividend prospects for the year. Bigelow has cleaned up the arrears on its preferred that were a carry-over from last year, and may pay something on the common if the present earnings rate continues its course.

Mohawk has already made one payment of 25 cents and estimates for the year run to about $1.25 with the greater disbursement at the end of the year after the company has had time to study its position. Prior to 1930 both companies followed a very liberal dividend policy, but the vicissitudes of the last decade have made them more cautious. Right now all indications point to a continuance of the domestic upswing, but any consideration of these stocks must also include the element of uncertainty that will prevail as long as there is a major war going on in Europe. Public confidence—so strong today—might be wiped out overnight by some untoward incident in the fighting abroad. And this is aside from the possibility of a certain amount of trouble over obtaining sufficient supplies of wool before present inventories are exhausted and production is dislocated. In general, though, the two carpet makers show a strong comeback from their weak position of last year. And with competent management aware of the difficulties that they have to face, there is every promise of better months ahead.

Steel Capacity?

(*Continued from page* 85)

their needs from home and empire sources? What supplies were laid in prior to the war's beginning? These are some of the imponderables on which a final and complete answer would depend.

But in lieu of the latter, a few probabilities may be noted. First, it is likely that, with repeal of the arms embargo, a certain amount of ordnance will be bought here. Second, embargo or no, trucks and other special purpose automotive vehicles will probably be bought, though whether in sufficient quantity to offset the loss of normal peacetime automobile exports is another question. Beyond that, near term Allied demand for steel and steel products is not impressive; only when, as and if it becomes apparent that the war is to be a long drawn out and intensively fought affair are war orders likely to assume bonanza proportions.

Elsewhere in the export market, and especially in Latin America, the picture is somewhat more clear-cut and encouraging. Former buyers from Britain, France and Germany will, of necessity, turn mostly to this country for steel supplies. In 1937, combined exports of the present belligerents amounted to 8,100,000 tons. If we get about three-quarters of this or 6,000,000 tons, it will be enough to engage about 12% of the country's total finishing capacity.

which, incidentally, would also be almost enough to reconcile the difference between a 90% operating rate and the approximate 75% rate that steel men believe would have been reached this fall on a basis of normal, peacetime demand. Of course there is the problem of financing to be dealt with, as in any extensive Latin American trade proposition, but present indications are that this will not be a serious obstacle.

By and large, the situation in steel today can be summed up as follows: Near-capacity operations are in the cards for the rest of this year (always barring peace and resultant cancellations) but profit margins will be somewhat restricted by maintained prices and higher costs. Nevertheless, overall earnings will be sharply higher. Beyond the year end, the picture becomes decidedly more hazy, but unless overseas business develops more rapidly and on a larger scale than seems likely at the moment, some letdown in operations is probable. However, the prospect of moderately higher selling prices, together with lower raw material costs, suggests a widening of unit profit margins.

Marketwise, these immediate probabilities appear to have been pretty well taken into account and may explain why steel shares as a group are not selling on a price-earnings basis more in line with what would obtain in a less speculative setting.

A Contrast in Capacities

(*Continued from page* 81)

provements to technical methods are responsible for most of this building.

It does show, however, that the United States has not gone conservative to the logical extreme. Someone has told the story of the staid old English textile firm approached by a salesman with machinery that would triple their output with very little increase in cost. After proper credentials had been exchanged he presented his case. Cost of new machinery—£100,000. Length of machinery's life—12 years. Annual savings—£35,000. It would pay for itself, in other words, in three years.

The directors were impressed, but had one more question. "And what can we get for our present equipment if we replace it with yours?" "Not a penny above its value as junk" was the answer (the salesman was an American). "These new machines have made your type a drug on the market." To him that was the clinching argument, but the directors came back with the decision—"We paid close to £200,000 for our present equipment. We could hardly explain to our stockholders scrapping a £200,000 investment while it still runs well and does its job satisfactorily. Your proposition is interesting but impractical."

Shall the NO SALE sign be rung up on American industry's expansion problem? In certain lines the answer will undoubtedly be yes, for they are the unfortunates of the last few years, possibly the favored ones of the immediate future, who have capacity to spare. Orders to them are still profit opportunities. The rail equipments, to pick one out of a few dozen candidates, will welcome all the business they can get, whether it be from this country or South America or Europe. Their mammoth capacity in relation to even the currently enlarged flow of orders is one of the most interesting recommendations for their prospects.

Machine tools, on the other hand, represent a situation where new orders are meaningless unless the ability to fill them already exist. The steel companies have come close to actual capacity and therefore to a limit of their earnings potentialities. U. S. Steel is kicking its heels like a colt instead of the wheelhorse it is supposed to be when it plans a $10,000,000 addition to the $60,000,000 Irvin Works just completed in time for this flurry of orders.

Continuous expansion is expected of the chemical companies—Monsanto, Dow, Union Carbide, du Pont with its tremendous Nylon plant barely under way when an addition is planned. The utilities also are counted on for continued additions to their plants and generating capacity, so the $16,000,000 addition to the program of Commonwealth & Southern and the $6,000,000 addition by Cleveland Electric Illuminating are taken for granted. In contrast, the railroads are expected to be ready for all demands on their services whenever they occur, though their limit had seemed safely removed. The effect of the railroads'

attempt to increase capacity is likely to be under-rated in considering other industries, chiefly because the carriers have for so long been poor customers.

Many of the companies that have chosen this as the time to expand are frankly taking a chance. Many will accept whatever profits come their way as a windfall to be distributed in an attempt to make their stock go higher or to prove their invincibility in making the most of circumstances. Some are forced to expand even against their judgment. Some few will adopt the other alternative of turning away business. Out of the situation today, however, will emerge turning points for individual enterprises which will enable them in the future to claim omniscience. Whatever their brags, all we can call them now is good gamblers—and wish them luck.

Better Days for Great Northern

(*Continued from page* 101)

while the Series H issue is convertible at $75 per share, or into 13 1/3 shares per $1,000 bond. This financing alone saved the company something better than $3,000,000 in annual interest charges. Both of these issues offer the conservative investor a sound medium for acquiring an interest in the company.

Further progress in the reduction of debt was accomplished in 1937 when $61,024,000 of divisional bonds were refunded through issuance of $50,000,000 of 3¾% General Mortgage bonds, while the balance was taken care of out of the treasury. Since the bonds refunded carried coupons of 5 and 6% something better than $1,170,000 in annual interest charges was saved. This improvement in the road's finances should considerably strengthen its position, and the deficits reported in 1933 and 1934 would have been eliminated under the present set-up. The exception would be a repetition of another year such as 1932.

With the trend of ore loadings running substantially ahead of a year ago—for the week ended October 7 they were some 111% better than the corresponding part of 1938 —it is normal to anticipate considerable improvement in Great Northern's earnings during the final four months of this year. Ordinarily the last four months are by far the best, and during a good year this is true to such an extent that from 50 to 60% of the total operating revenues are accounted for in this period. Therefore assuming that total revenues are likely to approach $90,000,000 it seems safe to estimate that earnings applicable to the 2,498,922 shares of preferred are likely to better $3 per share. This estimate is based on the assumption that dividends received from Chicago, Burlington & Quincy will be as large as they were in 1938.

Carloadings of the Burlington thus far have been running slightly ahead of last year, but it is unlikely that grain shipments this fall will greatly exceed those of 1938. This statement is based on the indication that with the bumper wheat crop prospects in Australia and Argentina there is little chance for wheat exports from this country, excepting those exports sold under the subsidy plan. Thus iron ore appears to be the most important single commodity making for increased revenues and it has already been shown that these shipments are closely associated with activity of the steel industry.

As of August 31, 1939, the company's working capital increased some $6,200,000 to $17,273,960 compared with the same period last year. Financing of the road's $28,132,364 of St. Paul, Minneapolis & Manitoba-Pacific Extension first 4's due July 1, 1940, should be handled without any great difficulty. In a word the outlook for Great Northern continues satisfactory though its future rests on economic foundations somewhat different from those originally conceived by its founder.

American Water Works Appraised

(*Continued from page* 111)

has averaged about $1.07 per share on the 2,343,105 shares outstanding. The dividend policy of the company has been liberal. In 1938 when earnings were $.80 per share disbursements totaled that amount also. Last year, though, earnings amounted to only $.38 per share and, in view of the unsettled conditions, no payment was made.

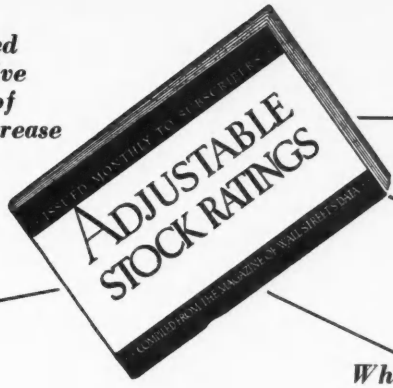
A major consideration in any industry, taxation has become a headache for the utilities in particular. It is no longer possible to calculate earnings on a consolidated basis as was formerly the case. Instead of being able to deduct the losses of any given unit from the net profits of the whole, thus reducing the graduation of the taxes, returns are made on the operations of the separate units. In addition, the taxes on the payment of dividends by subsidiaries to the parent company have been increased. An idea of what this means to American Water Works can be seen from the fact that total taxes paid last year amounted to approximately $6,600,000 plus an extra $400,000 paid by operating units. This amounts to $.14 out of every dollar of gross income, 39% of total operating expenses for the system, or about $2.99 per share of common stock as against earnings per share of $.38.

Thus far this year the electric output of the system has shown an increase every month over the corresponding month of last year, and in most cases over the preceding month. Net increase for the first nine months amounted to 14% over 1938, and September output was 17% ahead of last year. Earnings for the first six months amounted to $.18 per share against $.08 per share for the same period in 1938. However, the last half witnesses a seasonal rise in output that should bring the total for the year somewhere in the neighborhood of $.65 per share.

In comparison with other utility systems, American Water Works and Electric seems to be slightly topheavy in terms of funded debt, with a correspondingly restricted return for the common stockholders. However, this situation will be helped by the revamping to be done under the provisions of the utility holding company act, and the reduction in fixed charges that the necessary refunding will entail. The better tone to the money market will undoubtedly permit such operations to be effected within a reasonable time. Headway has already been made in this direction with the refunding of approximately $26,000,000 in bonds at lower rates and a considerable saving in fixed charges.

The common stock is currently selling around 14, near the high for the year and six points from the low

What well-rated companies give indications of continued increase in earnings?



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of 8⅛. As yet no dividends have been declared in 1939. However, current asset position is strong for a utility, with cash at $11,883,000 and current assets at $19,166,799 against current liabilities of $14,994,488. It is reasonable to assume, therefore, that a liberal dividend policy will be resumed, given any assurance that currently improved trends in revenue and earnings can be depended upon. In light of this the stock is not selling on an extended price-earnings ratio as measured by other less volatile systems.

Potential Boom in Latin American Trade

(Continued from page 77)

countries. The late Secretary of the Treasury, Andrew Mellon, testified before the House Committee on Banking and Currency that the foreign loan is the *sine qua non* of foreign trade, and that the United States would be obliged to go on lending if she wished to increase her trade with the rest of the world. It is of distinct interest to examine the effects which foreign investments have had upon American commerce with the twenty nations south of the Rio Grande:

America's stake in Latin America, comprising so-called portfolio investments as well as direct investments in plants and properties, is estimated at $4,101 million. United States trade with the republics South of the Rio Grande amounted in 1939 to $1,048 million, of which exports accounted for $564 million. In the last pre-war year, American investments in Latin America were estimated at $1,375 million, while total trade with the Southern republics aggregated $783 million, of which exports amounted to only $339 million.

From these figures one gathers that for each increase of $100 in America's stake in Latin America compared with 1913, America's sales to the Southern republics showed an increase of $8.25, while total trade with Latin America increased $9.72 for every $100 increase in investments.

It is illuminating to contrast these figures with similar statistics relating to American investments in, and American trade with, the Old World. America's stake in Europe is estimated at $2,327 million, compared with $350 million in 1913. Last year, trade with Europe amounted to $1,893 million compared with $2,365 million in 1913. Shipments of merchandise to Europe amounted, in 1938, to $1,326 million compared with $1,500 million in 1913.

In other words, for every increase of $100 in American investments in Europe compared with 1913, American exports declined $8.80, while total trade with the Old World showed a shrinkage in 1938 of $23.87 for every gain of $100 in America's stake in the Old World over the 1913 figures. If the slogan, "Trade follows the dollar," which was employed in the feverish days of American lending abroad by all who were engaged in the origination and distribution of foreign loans on a large scale, is at all true, it applies to a decidedly greater degree to Latin America than to Europe.

America's concentration upon Latin America is much more logical than endeavors to expand commerce with Europe. To begin with, America's trade with Europe has been steadily declining, while trade with Latin America has been advancing. In 1913 American exports to Latin America were less than 14% of total exports. In 1938 they amounted to 18.25% of the total. Sales to Europe in the last pre-war year were 60% of the total. In 1939, they dropped to 40.8%. Furthermore, much of Europe's buying has been paid for by American investors who together with our Government now hold Europe's I.O.U.'s on which they may never see any payment made. If the American Government had been or were to be as liberal towards Latin America as it was to Europe, the results would be far more satisfactory. At any rate, they could not be more unsatisfactory.

American investors should bear in mind that losses in Latin American bonds are relatively small compared with the billions of dollars of American money poured into the Old World, money which is not only irretrievably lost but which made it possible for Europe seriously to compete with and undermine American economy and threaten American ideals and institutions. No such fears need be entertained as regards Latin America. Furthermore, while losses have been sustained by American investors in Latin American bonds, they are insignificant compared with the benefits derived from the increase in American trade with the Southern republics and the income which Americans derive from their so-called direct investments in Latin America.

Aid to America's neighbors, carefully planned by those rendering it and properly employed by those receiving it, should go a long way towards restoring normality and bringing back prosperity not alone to the United States but to all the Americas.

Answers to Inquiries

(Continued from page 120)

dividend payments omitted since 1937 does not appear in near-term prospect, although should earnings continue to trend upward, distributions in 1940 are possible. Finances at the close of 1938 were in fair shape, with current assets, including cash of $6,852,018, totalling $23,984,444 and current liabilities amounting to $13,664,964. With gross revenues expanding moderately, and costs better controlled, the loss in the first six months of 1939 was reduced to the equal of only 21 cents a share from one of $1.45 a share in the similar year earlier interval. Business handled has increased substantially since the mid-year and the president of the company has said that a profit would probably be reported for the nine months ended September 30, last. Volumes have recently levelled off, but activities continue at a rate somewhat above that existing prior to the September upswing. A continued high level of business activity in this country and the war in Europe should find reflection in good sized earnings gains being reported. We consider the shares as being worthy of continued speculative retention at this time.

American Safety Razor Corp.

Have you any new information available on American Safety Razor? I am holding 100 shares bought at 18 and would like to know whether to sell or continue holding. Have price reductions made much difference in sales? Will these cuts have a considerable effect on net earnings?—J. B. C., Elgin, Ill.

American Safety Razor Corp., second largest organization in its particular field, is largely interested in the manufacture of the well-known

Gem, Eveready and Star razors and razor blades. A good measure of product diversification is obtained through the production of brushes and other shaving accessories, as well as certain other products. Just what benefits the Gem-Electric Dry Shaver may be to earnings, remains to be seen. Largely because of sharp competitive practices within the trade and price reductions from time to time, earnings have been following an irregular downward trend in recent years. 1929 saw earnings of $7.71 per capital share, while net in 1938 was equivalent to only $1.48 a share. This compares with $2.47 a share reported for 1937. Yearly dividend payments have likewise declined from $5 a share as recent as 1931 to only $1.70 a share in 1938. The current 30-cent quarterly rate is considered secure for the time being, at least. Capitalization is simple, consisting only of 524,100 shares of $18.50 par value capital stock. Finances continue characteristically strong, with current assets, including cash of $503,018, totalling $4,465,455 on December 31, 1938. Current liabilities as of the same date amounted to only $816,058. Quarterly sales figures are not released, but lower prices instituted in May and an uncertain foreign situation aided in reducing profits for the first six months of 1939 to the equivalent of 81 cents a share from 90 cents a share in the January-June interval of 1938. Because of a continuance of the unfavorable factors inherent in the situation, earnings likely will continue relatively unsatisfactory during the stretch ahead. At this time the shares are largely attractive for the income afforded. On this basis, continued retention is believed justified.

What the Indexes Don't Tell

(*Continued from page* 91)

for secular trend or population growth. So adjusted, the figure for September would have been 95 rather than 110 as actually reported. If this publication's index were not adjusted for population growth, it also would have averaged 110 for September as against our actual figure of 95 after adjustment.

There are other indexes—that of the New York Herald Tribune is an example—which, though they purport to measure business activity, include certain purely financial statistics such as the volume of security trading or new financing. Since these latter are in themselves partial indicators of the underlying business situation, their inclusion makes for a certain amount of overweighting or redundancy. Possibly a more serious criticism is that they tend to reflect expectations as to the future course of business rather than its current status. Of course this does not mean that there are no financial figures that may properly be included in a well composed index. This Magazine's series includes bank debts, for example, which are an excellent measure of gross business turnover; care has been taken, however, to exclude New York and Chicago figures which would tend to place too great emphasis on purely financial transactions.

But, when all is said and done, even the best index that can be devised—and it is worth repeating that none is perfect—is useful only up to a certain point in judging the stock market. This is so not merely because the market is concerned more with the future course of business than it is with its past trend or present position, but also because buyers and sellers of stocks are mainly interested in profits whereas all any index even attempts to measure is activity.

It is this sort of thing, despite such statistical tools as the business index, that makes market forecasting an art rather than a science. But without such tools it would not even be an art; it would be necromancy.

Happening in Washington

(*Continued from page* 79)

slack. W P A spokesmen are trying to offset reports from many cities that relief applicants are not available for local projects, laying groundwork for continuing work relief at about present level.

South American exports, it is now realized, will not expand as rapidly as was supposed couple months back, but administration is working hard to promote them. Credits and more or less disguised loans are being studied, and State Dept. will go down the line, despite bitter farm opposition, in its pending reciprocal trade negotiations with Argentina, Uruguay and Chile in effort to provide those countries more dollar exchange for buying U. S. products.

Administration attitude toward war has undergone notable change during last two months. With invasion of Poland whole Washington atmosphere was that of being on verge of hostilities ourselves—seemingly deliberately and ostentatiously so. Now official talk and action is all purposely based on premise of staying out and being so prepared as to be respected abroad. Causes are partly political—realization of strong anti-war feeling among masses of voters—and partly the course of the war itself which unexpectedly developed along lines of diplomacy rather than mass slaughter.

World Strategy Turns on Oil

(*Continued from page* 90)

India, Australia, South Africa and the Philippine Islands without shipping crude oil in large quantities over great distances. The Bahrein Island company holds a concession on 100,000 acres, or 80% of the Island. If this is an indication of things to come one might hazard a guess (and hope) that with a developing national consciousness among small nations the non-political United States might ultimately be the final beneficiary.

But international oil strategy must encompass all probabilities and possibilities that lie within the realm of action. Where would Britain and France look for further petroleum supplies if these Near Eastern areas became engulfed in a devastating conflict? This of necessity would bring Venezuela into the picture as an important source. The distance from Caracas to London is 4,120 miles, or some 994 miles less than the distance from Vera Cruz, Mexico, to London. The importance of Venezuela is further emphasized by a new daily production peak at present of 597,058 barrels. This is some 17,000 barrels over the previous 1937

record, and latest dispatches tell of British companies boosting their output rapidly.

Both the Anglo-Iranian and Royal Dutch-Shell Co., Ltd. hold large concessions in Venezuela. As a matter of fact it was the irrepressible Sir Henri Deterding, regarded until his recent death as the Napoleon of oil, who originally initiated the development of the Venezuelean field. But the wily Dictator Gomez, who died in 1935, realized that it suited his purposes better to have more than one or even two companies within his country. Hence today Standard Oil Co., of New Jersey, through its subsidiaries has obtained a firm foothold in this territory. Other American companies holding concessions in Venezuela are Standard Oil Co. of California and Seaboard Oil Co. of Delaware, as well as Socony-Vacuum.

The Empire of the Rising Sun remains the dominant power in the Far Eastern situation, though just what the ultimate effect of her invasion of China will have upon her economy is difficult to forecast at this time. Japan's aggression has been based fundamentally upon her desire for raw materials among which petroleum is a much needed commodity, since less than 10% is produced within Japan proper. With Japan's growing industrialization, increasing supplies of petroleum are necessary and to maintain her present war machine on a modernized basis oil is likewise essential. Some estimates reckon that the Japanese Navy alone consumes as much oil as does the whole Empire for other purposes, and the most conservative state that it is the largest single consumer of oil in Japan.

In 1925 an arrangement was made by the Japanese with the U.S.S.R. for the exploitation of oil in Sakhalin Island from which the Japanese Navy receives part of its supply. In Manchukuo extensive shale plants have been established and operated in recent years, which also aids in strengthening the petroleum self-sufficiency of the Japanese Empire. On the other hand the restrictions placed upon American and European oil companies in Manchukuo, since that nation's acquisition by Japan, have injured the market in this territory for such companies as Texas Corporation and subsidiary units of Jersey Standard and Socony-Vacuum. At the moment the petroleum situation in the Far East is quiescent, though there is the standing threat of the Japanese Navy to the Netherland East Indies.

Between 1914-1918 United States exports rose something better than 30%, though at the moment a repetition of this seems unlikely as a result of the present conflict. According to some military experts Great Britain and France during the war will require from two to three times the quantity of petroleum products needed in periods of peace. Last year Britain imported 18% of her requirements from the United States. Just how much additional tonnage she will take now from this source is difficult to say, since payment in gold will be required and it is normal to expect she will do her best to conserve this valuable asset.

It would appear more probable that Venezuela, British and Dutch West Indies are to receive a substantial increase in demand along with Iraq and Iran, since payment can then be made in sterling.

As has been indicated, the war might shut off supplies from Iraq and Iran in the event of further complications. This leaves the South American countries and West Indies as the most favorably situated sources. Hence companies having subsidiaries operating extensively in this territory are established much more favorably.

Thus Standard Oil Co., New Jersey, is placed in the first rank among American companies, especially since it is also entrenched in every important producing and marketing territory throughout the world, and has at the same time the sponsorship of a powerful neutral nation. Next to Standard, Socony-Vacuum is in a strong international position with properties and marketing facilities in South America, the Near East and Far East. There is also the powerful Texas Corp. and Standard Oil Co. of California. In addition to serving Great Britain and France these companies are in a position to serve markets relinquished by the Royal Dutch-Shell and Anglo-Iranian as a result of war demand placed upon them. For these reasons the great American international oil companies should be able to increase and extend their international operations during the present European conflict.

Movies Hit on Several Fronts

(Continued from page 93)

distributor who leases it to a theatre on approximately the basis of 30% of the gross theatre receipts. Let us say that the gross theatre receipts are $10,000; then the distributor asks $3,000 rental for the film. But the distributor wants close to 35% of that rental for his services, so he turns over $1,950 to the producer. So the studio gets about 19% to apply on its negative cost. It is reasonably obvious that to cover the cost of production alone the picture must play in the theatres to about $10,000,000 or, estimating the price of theatre admissions at an average of .25, some 40,000,000 people must pay to see it. But that's a lot of people, and will they?

There are just a few facts of an elemental sort. If there is to be a profit this must be added to the above figures.

If the movie business is compared with any other basic industry it becomes at once apparent that the former seems to have gone into economic reverse. The motor car people claim that they are producing a far better and more valuable car at far less cost than they did ten years ago. The telephone folk assert that they are giving better service for much less money than they did a decade since. Even the much maligned railroads are giving better value for their customers' dollar than they did in years gone by. What is the remedy for the pictures? Do they need a remedy? Frankly, this commentator prefers to leave the answer to those questions to those who are better able to answer them, and perhaps the plight is not so desperate as it seems at this writing, for only this day are there reports: (a) that theatre patronage is picking up throughout the country, and (b) that the foreign markets—largely English speaking—seem to be showing indications of continuance.

If one should endeavor to indicate the greatest menace to the movies, unquestionably the folly of that initial surrender to union labor is the greatest, rather than to lay the blame on the threshold of the strangely quiet war now going on in Europe.

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